REFINITIV STREETEVENTS

EDITED TRANSCRIPT

EMN.N - Eastman Chemical Co at Citi Global Basic Materials Conference

EVENT DATE/TIME: NOVEMBER 28, 2023 / 4:00PM GMT

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

CORPORATE PARTICIPANTS

Mark J. Costa *Eastman Chemical Company - Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Patrick David Cunningham *Citigroup Inc., Research Division - Research Analyst*

PRESENTATION

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

All right. Good morning, everyone. Our next fireside chat will be with Mark Costa, Chairman and CEO of Eastman Chemical Company. Mark has overseen the launch of Eastman's molecular recycling technologies, significant advances that help solve the waste crisis and climate change. Under Mark's leadership, Eastman has seen innovative growth across industries like agriculture, consumer goods, personal care, transportation and textiles. Here to tell us more about Eastman's businesses and opportunities in circular plastics. Please welcome Mark Costa.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

It's great to be here. Look forward to the conversation.

QUESTIONS AND ANSWERS

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Absolutely. So maybe let's first start big picture and touch on global demand trends across each of the businesses. So -- what are you seeing in the fourth quarter in terms of destocking underlying demand and maybe where you're most positive on the setup for next year?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Sure. So what I'd say overall, we're not in any sort of significant improvement in the underlying economies at the end market point of view. I think they remain challenged across the world as they have been through most of the year.

But we are seeing good progress on the destocking side. So most of the stable markets, as we call it, whether it's personal care, water treatment, medical, things like that the destocking, I think will mostly play itself out this year.

And even in consumer durables or building construction, we think most of the destocking is over from what our customers are telling us. And I'd say that's sort of globally true. The 2 markets that do actually still have destocking going on through this quarter are medical and ag.

Those 2 markets, along with consumer packaging, really didn't start destocking until May of this year where everything else started in the fourth quarter of last year. So they just got started late, and they're still in the process of finishing what they're doing.

We expect medical probably will be done by the end of this year. Ag, there's a lot of debate, if you talk to the customers in the ag sector on exactly what might sort of drift in the first quarter, but profitability of farmers is really good. Their desire to invest in crop protection, I think, is reasonable to expect to be at least normal.

So it's really just a destocking question on to what degree volume ramps up in the first quarter for planting season. We expect it sequentially to be better than this quarter, but to what degree, it's a little hard to call on the ag side. So overall, I'd say the markets are relatively good. But the primary

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

underlying economies as I think everyone can read in the newspaper every day is there's not a lot of signs of any sort of material recovery on that front.

So from a quarter point of view, we say demand is sort of playing out as we expect. But December is always a rodeo. You just don't know what's going to happen. So up through now, it's sort of on track, but we don't know what December will bring.

So there's always that, spreads are coming in sort of as we expect on the sort of price cost relationship. Costs are fine. We are still managing and running the company for cash. So how we manage our assets and utilization rates to make sure we hit our cash target is also something that we're going to still stay prioritized on for the quarter, but we feel good about the sort of range that we have right now on earnings point of view for the quarter.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Got it. And then just very briefly on just that destocking trend. There's always been this thesis that maybe there are specific end markets or products which maybe were destocked to dangerously low levels. And is there anything that you see where you might see some sort of a tailwind from normalization into next year?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

First of all, I think that the approach we're taking about next year when it comes to markets is to be sort of neutral about it. In other words, I don't know, right? I'm not going to start trying to call market recovery or market is getting worse.

So as we built our comments around what we think could happen with our earnings and cash next year, we sort of took a market-neutral point of view, not because I know the answer is because I don't, right?

What I'd say is the -- some markets were being very careful about like durables and building construction. There are stable markets where we do see modest recovery from low levels, whether it's medical once its destocking is over, personal care, water treatment, these kind of markets that are pretty sort of inelastic and long-term demand.

Those will start recovering at modest levels. When it comes to restocking to your question, I think it's fair to say that after 5 quarters of aggressive destocking in many markets, there's a good probability that they've gone too far in their aggression because we're all saying the same thing to each other where you go, I'm sure across this meeting or with customers.

Everyone's like obsessed on getting inventory to very low levels. And I think people are being very cautious about rebuilding. So there will be at some point, not just sort of demand going back to a more normalized level in these markets, but restocking to go with it.

If history is an indicator, that restocking can be the same kind of bullwhip on the way up as it was on the way down. None of that is in our comments about next year when you think about our bridge. So that would be upside. And it will happen. It's not a question of if, it's just a question of when, and I don't want to get caught in trying to call the when with all the uncertainty we have with us.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Got it. And then maybe just to put it all together on 2024, I appreciate you sort of talked about most of things that are largely out of your control at this point on the demand picture. But what's the latest thinking in terms of the return to those 20% EBITDA margins, long-term EPS growth target of 8% to 12%. Can we get back on that track next year just given some of the things you do have in your control?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. No, well, I think that we can do a lot better than 8% to 12% recovery in EPS from this year to next year. So -- and then I would say the 8% to 12% comment really applies to 2025 relative to '24. And yes, we think we can do that, and we certainly get the cash to come back with it.

When it comes to next year, what we try to do is, like I said, not make a bet on up or down on markets, you all can do that or on sort of raw material costs, right? So if you have just a neutral point of view on that, what can our earnings do? And it starts with volume mix being the biggest headwind this year.

So we had a $450 million volume mix headwind this year relative to last year. And that is just the variable margin part of it. That $450 million doesn't include asset utilization. So that's a big number. Destocking, as we've said this year, is at least 1/3 of that number. It could be more, but let's call it 1/3.

So you've got $150 million of recovery next year versus this year with just the lack of destocking in the stable market. Like I said, a bit of modest recovery in some stable markets, not assuming any recovery in durables or housing, that would be upside relative to how we sort of look at our forecast.

Auto as being somewhat improving, to be fair. So you've got a bit of that market growth in there on top of the 150 and then you got the innovation-driven growth, which is substantial for us. You've got the new methanolysis plant that we're in the middle of starting up right now. I'm sure we'll come back to that later.

But that's worth about $75 million net of EBITDA when you put all the pieces of that plant together, right? So operating costs being offset by preproduction costs, revenue coming in, net altogether, $75 million incremental tailwind. And then you've got $75 million of asset utilization.

So we went beyond following demand to pull inventory down aggressively to generate cash this year. So that additional aggression to generate cash is about $75 million asset utilization of headwind this year relative to last year that doesn't repeat itself, even if volume is the same next year, you got a $75 million tailwind.

So all those add up to some nice. We also don't have a $50 million headwind in currency we have today or $110 million headwind in pension that we had this year, right? So there are a bunch of headwinds we had relative to last year that don't repeat.

So that positions you in a pretty good position to get some earnings to recover and the cash that goes with it as we go into next year. The last question that goes with this is what's going to happen with the price cost relationship in the specialties? Are you going to have a spread tailwind or a price cost tailwind or headwind?

And I think we're going to have a modest headwind, but there are -- there's some adjustments on prices we're going to make in some markets where raw materials have come off a lot. Customers know what you got to start treating them with some respect because we haven't given much price back outside of cost pass-through contracts and especially at all this year.

So there will be some adjustment, but we still have raw material trapped inventory at lower cost that still needs to flow out. So how those 2 net out to each other next year relative to this year could be neutral. It's certainly not going to be a tailwind, but it may not be as that much of a headwind.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

And so have you started to see some of that price get back on the specialty side...

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Not yet. But we're expecting that. When the destocking ends and you've got some relief in the market, some confidence, and therefore, when you talk about giving some price up for more volume, that's a fine conversation to have. But right now, we just been giving up more price for less volume, and so that's why do that?

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Right. And then are there any pockets where prices defensive and you expect it to hold pretty strong into next year? Or is it pretty broad-based?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

I would say most of the specialty pricing will hold in strong. There are certain markets in both Advanced Materials and AFP, we've walked away from this year because pricing just got about silly, right? Most, for example, selling into architectural paint in China, when it's in total free fall, it's not a very profitable endeavor.

So we've walked away from some volume that had no profit. And so there is some of that in the volume story that's in that other 2/3, but the places where we've walked away, we never had that much margin in those applications. So -- it wasn't that big of a gain on earnings.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Yes. And then maybe just digging into the specialty businesses a bit maybe starting with Advanced Materials. It's kind of a challenging couple of years. What do you think it takes to get back to more sort of foundational $500 million earnings there? Maybe excluding methanolysis for now, we can get on later, but.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Volume, yes. So this is a volume story. The -- if you look at the $450 million of volume mix that came off, a good portion of that is in Advanced Materials. Associated with the Specialty Plastics business as well as the interlayers going into buildings laminated construction windows.

So those markets certainly had challenges. And as you think about where we were headed before all this, right, I'm painfully aware of by $600 million and $700 million numbers in the past, where we wanted to be in '22 and '23, those were under a different macroeconomic assumption of an economy that was growing, right?

And we would be at those numbers if you were back at those sort of economic conditions. In fact, we'd probably be above it because our margins per kg are a bit better with the price discipline we've had. So it is predominantly a volume story. So a good portion of that $150 million comes back into the Advanced Materials business from the destocking that I mentioned earlier not being around anymore.

You do have some auto growth in there. You have some underlying stable markets in consumable packaging and things like that, that will come back modestly and sort of how the earnings recover, margins are better. So that's helpful.

And then asset utilization. So over $40 million of the $75 million of asset utilization is in Advanced Materials. So that comes back as you sort of get back to normal operations. And then you've got the Kingsport methanolysis and other innovation.

So it's not just about Kingsport in that $75 million, only $50 million of which shows up, by the way, in Advanced Materials of the $75 million because the preproduction expense that goes away is over in Corporate Other. But you got that $50 million showing up here in EBITDA.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

And then you've got other innovation occurring through the portfolio, the paint protection films, the heads-up displays, the EV growth that are all giving us above-market growth due to the innovation we have in that space. So we feel good about it getting back to a much healthier number and then continue to accelerate as markets recover.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Got it. That's helpful. And then briefly on AFP. How much of a recovery should we expect into next year? And maybe what are some of the medium- to long-term trends underpinning this business?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

So AFP is a great business. It serves a great set of stable markets. It's very connected to building construction, automotive, ag and how we've sort of resegmented the business as well as the fluids business. And it's the same story. It's just the numbers are smaller on everything compared to Advanced Materials.

So you have an end to destocking there and some of that will come back. You'll have some modest growth in the care chemicals and the personal care and those kind of markets, same thing. You will have -- the spread dynamic is a bit different because there's a lot of cost pass-through contracts in the Additives & Functional Products business. So spreads are relatively stable from last year to this year to next year as a result of that.

But there's some timing of that. So there could be a bit of a spread headwind next year just because of the timing of how the contracts are changing from this year, which have been a little bit better, it will be a little bit of a catch up next year.

So overall, I think you'll see recovery in that business, and there's always a little bit of timing around fluids when projects happen from year-to-year that has to be looked at.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

And if I think back to the beginning of the year, maybe first quarter, second quarter, the outlook was maybe a little bit rosier. I think a lot of that was predicated on some of these stable end markets, staying stable and not having the same sorts of destocking. And I appreciate that, that is pretty unprecedented. But there was this also belief that auto would remain strong and help hold in and you have strong sales from that business.

So can you maybe talk about how that side of the business has performed? Are you exceeding your expectations in terms of whether it's premium content for EVs or different premium products? I know has it also been a laggard as well?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. So from an innovation point of view, it's very much meeting expectations, right? So the growth that we see in paint protection films and heads-up display on the EVs, which is remarkable 3.5x as many square meters in EV as an ICE car and I'll come back to explain that. But those are all very much present.

You see in the press where EVs aren't growing quite as fast as everyone expected. So obviously, that moderates the rate at which we sort of get that additional growth. But they're still growing faster than the ICE cars and still helping on a mix basis. What we sell into EVs is very high margin. So it's not just volume, it's mix that's very advantageous.

What I -- auto, by the way, on the coating side is just going to track market demand. So those are all going well. I'd say the disappointment has been China auto demand. So we -- definitely when the year expecting some amount of growth in autos in China and that's not played out just in the market -- in market conditions. But overall, I'd say we feel good about the auto business.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Got it. And across all of the businesses, you've been on this journey to upgrade the portfolio over time to be more specialty. And do you think the declines in the last year, 2 years, some of that variable margin that you talked about expanding over time. Like has this changed your thinking about the portfolio at all?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

It hasn't. I mean I think the quality of the portfolio has been improved by a lot of different actions, right? First of all, I think we're pretty disciplined owner. So when we have the business underperforming. We'll face that reality and divest it like we did with tires and adhesives, right? That's going to happen. It's the nature of this industry, sometimes innovation is sufficient to offset competitive issues and sometimes, unfortunately, it's not.

Overall to the innovation is putting aside the current macro where we are in the innovation side of the Advanced Materials business is very much where we want to be. We're seeing great progress in the programs we're pursuing in functional products. Getting the tow industry to recover as it has dramatically from $140 million to over $410 million this year.

It is a huge amount of cash and earnings and stability for that stream. So we feel good about sort of the core and how it's sort of holding on. And on top of that, you've got the $450 million EBITDA coming from the 3 plants on the circular polyester side. The cellulosics side is actually going better than expected. So we've had some great progress being made there, not just the Naia textiles, but also in Aventa, which is this food service set of applications where we have a foam cellulosic to be a drop in replacement of polystyrene for food service.

If you think of the protein trays in the grocery store or the clamshells or whatever else. So that's a huge market that's just starting to move for us. So we feel really good about those 2. So you put those together, that's a lot of earnings in the future. And you just have the core innovation and continue to deliver growth, right?

So in that sense, I think we feel good about the portfolio. Selling Texas City was sort of the last stand-alone sort of commodity plant and we've got a great amount of cash for it. So we feel very good about that. And it's about execution. We just need execution, and we need some stability in the marketplace.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Got it. Let's talk a little bit about tow. So on just the Fibers business, you had the contract resets there and you're expecting some modest growth on a record 2023 earnings. So where does this industry stand currently? And how have you been able to deliver this sort of improvement in an industry that's largely in structural decline?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. So there's a long history of this story. So it used to be at these levels back in 2014. And it's been a rough decade of decline. That was an industry structure question, right? So we had a significant drop in demand of imports going into China that is what disrupted the market in 2015.

And that happened because they were backward integrating and that happened because like now they had a massive destocking event where they collect tax revenue at wholesale level in China for all the revenue that generates and the #1 source of tax revenue in China is cigarettes. So tax revenue is very important. They had to grow it with GDP every year.

And since the collect it at wholesale, they were shoving it into the retail channel, created a massive inventory problem. And when they had the corruption crackdown, they -- all the gifting and partying and everything else that's going on in China, which consumes a lot of cigarettes went away. There was all these things that happened that were sort of unique to that 2015, '16 timeframe.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

But what happened as a result of that is we collectively took action in different places. So we rationalize capacity. Other companies decided they had excess capacity and they rationalize their capacity. So about 15% of the capacity was taken out or repurposed in the industry, because we shifted ours to making textiles.

And then we also ran into issues serving the new product forms for slims or TiO2 free or these iQOS heat-not-burn cigarettes are more complicated makes. So we effectively lost about 15% -- 10% to 15% of capacity. So the same amount of effective capacity came out of the industry and the demand turned out not to decline nearly as much as we thought.

So it only declined about 1% versus 2% to 3% because heat-not-burn was growing so fast. It was growing like 15%. And so 10% down 25% to 35% capacity out, but utilization back into the 90s. And the margins have gotten a point where we had very sort of rational conversations with customers that we needed better margins to invest in reliability.

The price -- the cost of a filter in a cigarette is a rounding error. So they don't want to run out of supply that would be very bad for their profitability. And so we came up with long-term contracts and also now adjust to the changes in energy and pulp so that the margins will be more stable, and we feel good about '24. We feel good about '25 of the contracts we have in place, we're making really good progress in '26.

So for at least 3 years, we think the earnings and the margin stability on that significant cash this business throws out is pretty reliable.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

And just to be clear, would that come over the next 5, 10 years, let's say, would that come with additional repurposing of some of yours in the industry's capacity?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

It can. We have a unique advantage and that we've done a lot of R&D in specialty cellulosics that allow us to grow in these other markets like the Aventa food packaging, I just told you about or the textile business. There's a series of other things we're doing as well. So it allows us -- we've gone from optimizing a stream to figure out how to bottleneck because demand as we look forward is going to be well above our capacity, which is a great place to be in.

And we feel good about that. And it's also because we have a solid-fed gasifier to make the anhydride to make the cellulosic. All our competitors are natural gas based. So we have the unique ability to put recycled content into the product and create closed loops on that.

We can do textile take-back programs back into textiles. And we can take all kinds of waste that cannot be recycled safely through some other technologies. But with our capability, we can pretty much take garbage -- true garbage in the front end of this facility. So it allows us to have a value proposition that's pretty differentiated.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

So I think it's a good time to transition over to some of the methanolysis projects. So maybe let's just start with an update on where each of these projects stand. And I do feel like over the past couple of quarters, there's maybe been some indication that the macro environment that we're in has maybe slowed some of these customer conversations or potential offtakes going forward? So maybe any updates to what we're seeing there?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. So on the first project, which is the Kingsport methanolysis project, is customers are there, demand is fine, except for the fact that consumer durable demand is not where we want to be from an end market point of view. But the interest from the customers and launching products with recycled content is still very much intact.

So we feel good about that along with the pricing that supports the economics. The feedstock is very much in place. No problems there. In fact, as you saw in the video, we attached to the third quarter call, we have a very large pile of feedstock ready to go. It's an amazing facility to see it. So the construction is now complete, and we're in the start-up commissioning phase of facility. And so far, that's going well.

So we still feel like we're on track to have revenue around the end of the year. It is a big project, a big plant. We sure never know what's going to happen when we hit the big red button on starting. But we're throwing everything we got at trying to address any issues ahead of time and identify them.

So we feel pretty good about that project. And that's really the last step to prove out the question, right? We've got the answer on the customers, we have the answer of feedstock. There's a point of run is a big question for a lot of investors that need to be addressed. And I think we'll hopefully resolve that over the next month or 2.

And sort of put all that -- those questions to rest, right? So then it gets to you, okay, that's great, and that supports your specialty business, but can you really scale this up in significant numbers of plants to serve a much bigger market that is PET and textiles. And that's what the second and third project do.

So the second project is in France. It's actually going to be half specialty and half PET textiles. And so that plant feedstock is already secured 75% more -- more than 75% on long-term contracts. So that was an important milestone. The permitting incentive process, everything else seems to be going well and on track. So we feel good about that.

This is where we've mentioned customers aren't completely finalized yet. And it's -- we started intentionally late with them because we wanted to get the Pepsi contract sorted out and have a model before we really started going after this sort of business in Europe.

So we're just in the middle of doing that. I think the conversations are going okay. The market dynamics, as you mentioned, did change. So the price of PET was sort of normal for sort of fossil-based PET, but the premium of RPET was well above that in '21, '22, when the market really got soft, especially in Asia, and they started, frankly, dumping their excess capacity, both fossil-based PET and recycled PET into the European market, it caused the prices to go down right now.

So that has become a distraction. It's really a distraction when you think about it because the regulation in Europe requires the recycled PET to be made from local packaging disposed off in Europe, which makes sense -- they're trying to solve their own waste problem, not someone else's.

And so as that starts to be implemented, the markets will sort of go back to normal with those implications coming in. And the third project, which is the one that's base loaded by Pepsi. Great project. We feel good about the demand we have from them, plus P&G and a few other customers. So that feels good. Feedstock, I think we understand since we already have a supply chain built for the first plant.

And so we're just working through the capital program right now. It's a little bit further behind the engineering than the France one and so we're just finishing the capital numbers and still pursuing incentives on that project with the inflation reduction.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Got it. Makes sense. And just given where we stand today, just in terms of the M&A landscape, do you see future bolt-on opportunities? Or do you see greater value in keeping this investment for organic growth?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Our focus right now is very much the organic platforms. I mean, the -- for $2.25 billion of capital and $450 million EBITDA is a very good multiple compared to anything you would pay an acquisition, right? So it's 5.5x versus whatever, 10% to 15%, right? So from an ROIC and a disciplined capital deployment point of view, it's the right thing to do.

Bolt-on M&A is always an option. We'll always pursue those. But I would say it's going to be very targeted and limited over the next couple of years relative to sort of the CapEx deployment on the organic growth side. And most analysis says organic growth is better valued once you deliver it.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Yes, that's helpful. And then just any sort of -- you talked a little bit about the risk when we press the big red button there, but do you see any sort of risk beyond that for the earnings ramp for Kingsport next year, whether it's ability to get specialty premiums or anything that concerns you there? Well, let's just assume it starts up with.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes, I mean I think that we feel good about what the customers want and how we built up that $75 million and the demand that they've put in front of us, right? So -- but we could have a much more adverse macroeconomic environment that inhibits the rate of demand growth. And this won't be immune to that to some degree, right?

So I think it's there's always that end market macro situation. But I think if the macro stays stable as it is, the guidance we gave you on this is pretty good.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

And then just free cash flow has been a hallmark for Eastman. So how do you see working capital next year? And what are the priorities for cash flow going forward?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

So from an operating cash flow point of view, we're very focused on delivering operating cash flow similar to this year with the sort of bridge of sources of growth next year. And we think that's doable. That will include some continued inventory management, but we've taken inventory down a lot this year.

I don't expect there will be a lot of inventory management next year relative to this item. So there'll be some, but it's more about cash earnings recovery as a way to bring in the cash. You have to remember, some of the headwinds this year is a bit deceptive from a cash point of view, right? $110 million headwind on pension accounting, which is a noncash hit in this year versus last year, right? And the $75 million headwind in asset utilization, that's generating cash, right, this year, right?

So you've got a lot of noncash headwinds relative to last year. So some of this like the $75 million comes back, which is noncash, right, for next year, but earnings come back a lot, right, relative to this year with the lack of destocking everything else we talked about earlier. So when you put all that together, it seemed like a similar cash flow seems about the right way to expect earnings for next year.

But free cash flow is different because historically, we normally would spend $500 million to $600 million in CapEx, $300 million to $350 million is maintenance and then the rest is growth capital, which we're still doing, but now you got the circular programs on top. And so we made a choice

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

to say, instead of doing M&A or buying back stock, we're going to do an organic program, and that's why OCF makes more sense to look at the free cash.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

That's helpful. Thought maybe open it up for Q&A from the audience, if anyone has any questions? If not, I'll go back -- maybe let's go back to some of the opportunity you laid out with textiles, Naia and then maybe some of the cellulosics recycling there. So help us maybe size the business there and the growth rates for that going forward?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

So the textile business has been a great, but small business, right? So we've been in the textile business forever, but there's limitations on what Naia fibers could do because they were relatively fragile, so it had to be dry-cleaned. We worked on improving the strength of the product back when the textile -- when the tow business started to sort of decline in '15, '16 and improve the product so you can now wash it and it can go into women's wear, not just suit linings and a much broader sort of product set.

So that's created a lot of market opportunity. And then sensitivity on sustainable fabrics is very high in the fashion industry right now. And now that we have a fabric -- the textile that work in women's wear in a broader sense, we're seeing a lot of interest and adoption on that prompt. And the main issue we have is just expanded capacity to keep up with demand, which is a high-class problem.

So we feel good about that business for the value proposition I talked about earlier, especially the end of life. The microfiber part is going to be a bigger driver of growth in the beginning of life for a lot of these applications. And so Aventa is a lot earlier, but we're in straws.

So we finally have a good straw as you can all drink out of it. Actually, it's not paper -- and it functions properly, and it will completely compost in a landfill. So that's a small market, but going forward right now. I can't name the brands, but I mean, you can think of some very large food service companies that are using it.

And then you've got the Aventa which is a much bigger volume opportunity in the packaging. So those are good. We have microbeads as well. So cosmetic, all the women's cosmetics have microbeads in them for texture and oil retention. They're very high-value products, not a lot of volume, but very high value. They're nylon and acrylic. And so legislation, especially in Europe is going to go in place to actually ban that, and you have to replace it with something else.

Turns out that our biodegradability is tunable on our cellulosics and we have patents around how to make these microbeads that will fully biodegrade in the environment when they wash off. That's another from an earnings point of view, significant opportunity that we're making great progress on some of the major luxury brands. So there's a number of ways we're coming at this along with eyewear with recycle programs, et cetera. And it's about $200 million of EBITDA when you look at the potential from here to 2027.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Got it. Got it. That's helpful. And then just we didn't really -- maybe touch briefly just on intermediates business. So based on some of the factors you laid out in terms of not trying to make a call on demand next year, not trying to make a call on feedstock volatility. Where do you see spreads trending into next year? I know propylene and propane spread not as important as it's been from sort of legacy Eastman business. But I think it's still important to understand what sort of a foundational or sort of trough like earnings we should see for that business going forward?

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. Well, I would say this year is definitely a trough-like earning actuation. Certainly the back half of this year, it's very tough. And what you have in the Chemical Intermediates business is businesses that now are primarily centered around first-making intermediates for the specialty businesses, which is over 50% of where these assets and the products go, and then you sell the rest just to run at full utilization, right?

And so as the market is recovering, especially, we'll have less volume to sell next year than this year for a good reason, right? Because we're valuing inside the portfolio. On the propylene side, the price of propylene is very depressed. It's about 40% lower than normal because of a bunch of excess capacity got added here and even more so in China.

So the spread relationship between propylene and propane is very challenged. So there's a lot of upside to spread at some point as those markets sort of normalize, but I can't tell you when that's going to happen. The acetyl, we're mostly in acetic anhydride, where the business is relatively stable. The part that is on acid is pretty challenged. That's a very small part of our business.

For our assets, we make acetic anhydride on purpose to make cellulosics. We don't make acetic acid on purpose, except for the plant that we just sold in Texas City. It's a co-product that when you make cellulosic, you get cut acetic acid that spins off the molecule that you then recycle back in acetic anhydride and sell some of that excess assets. So we're not in that business, and that's the one that has more volatility to it.

So we feel that the stability or instability is more of an olefin-driven issue. When you look at long-term, but it's also becoming a pretty smaller part of our portfolio and certainly has upside from this year going forward on spread.

Patrick David Cunningham - *Citigroup Inc., Research Division - Research Analyst*

Got it. Unless there are further questions from the audience, please join me in thanking Mark Costa.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Thank you.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.

©2023 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV