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PRESENTATION

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Good morning. My name is Jeff Zekauskas. I analyze chemicals for JPMorgan in North America. It's my pleasure this morning to introduce the management of Eastman Chemical. Representing Eastman is Willie McLain, who is the Chief Financial Officer of Eastman and has been CFO since 2020. Accompanying Willie is Greg Riddle, who's the Head of Investor Relations at Eastman, who is in the fifth row. And he's always very, very helpful. The format today that we'll have is one of fireside chat. And so what I'm going to do is welcome you, Willie, to our conference.

QUESTIONS AND ANSWERS

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

And I think the question that's on people's minds these days is your methanolysis project in Kingsport, and I was hoping you would give us a little bit of an update on it.

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

Yes. Thanks, Jeff, and glad to be here today, and thanks for the interest in Eastman for those in the audience. Just a quick update for those that have been following us. We have constructed and are mechanically complete in bringing up the operations of the world's largest polyester recycling facility and we call that molecular recycling. Also, it will have the most diverse set of feedstocks as you think about going from clear polyester to all the complex colors and different forms.

With this facility, ultimately, what we're looking to do is to bring new applications and new products to the market. As we think about the operations, I would say we have finished the mechanical completion. We are still in the, I'll call it, early stages of production. With that, we're still lining out the process. We are behind the schedule that we had originally set, but we are continuing to make strong progress towards that. The key items that we're dealing with today are, I would call it, mechanical in nature. So as you think about building a facility during the COVID environment, we were exposed to some of the, I'll call it, product quality.

So there's been a higher stage of, I'll call it, instant mortality as you think about equipment during that initial startup as well as just the construction with the labor force. All that being said, it's mechanical in nature. In many cases, we're taking the facility down, safely addressing those and then bringing back up. I'm highly confident that the Eastman team will resolve these mechanical issues with our partners. And the exciting thing for me is, at this point, we have now run this process from end to end, from the waste on the front end through the, I'll call it, the back end where we produce DMT, which is the key product that we're interested in, and building those complex polymers and applications. Throughout that entire process, our end process, I'll call it, samples are in-spec quality.

So at this point, the technology is working. I've seen the pictures and the quality and I'm excited about bringing this to market, the entire Eastman team for our customer base. We are excited, we are close, and we look forward to bring that to fruition. We are not going to publicly announce this being successful until it is up and running safely and continuously, so that we can serve our customers on an ongoing basis. And we will announce that when we reach that point, but we believe that we're very close to that point, Jeff.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. When -- if we think back to the sort of the original time frames when the technology was going to come onstream, maybe it was the very beginning of 2023. And whenever a new plant is brought on or new technology, there are always challenges. And for many companies, Eastman included, but Air Products, other companies, capital costs have gone up. In your opinion, Willie, with capital costs rising for Eastman and making methanolysis facilities, was a good portion of that noninflationary? That is, there were issues with maintaining the right workforce, keeping the construction going as you hit unexpected hurdles. In other words, can we read from the inflation in the building of the first plant to inflation in the building of future plants? Or was there something unusual about the building of this one?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

I would say there's probably 3 factors, Jeff. I think you've highlighted one key one, which is the workforce and having a stable ongoing workforce post the COVID environment. That was a key factor because the quality and the efficiency at which the workforce was able to construct this was not in norm. I would say, in addition to that, as you think about also -- I think we've been -- as we've talked about, we were continuing to design this facility as we chose to start the construction. I would say that was another key factor. And then I would say inflation is the third factor as you think about that.

So it's efficiency, effectiveness, it's completing the design while you're constructing it. And now as we think about building plant 2 and 3, we have those learnings, processes and building out partnerships with E&C firms, that we think we can specifically address those and bring those costs back under control as you think about the methanolysis facility. Also for the France project and the second U.S. project, the other key factors are building polymer lines and infrastructure. The variability around those is much tighter than building up, I'll call it, the first of its scale type of circular recycling technology. So the 3 factors plus bringing those learnings together, I think, set us up for success in France and the second U.S. project.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So from your point of view, it may be that the inflationary costs that are tied to the building of the next 2 plants are smaller?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

What I would say is, I think we're already seeing mitigation of -- on some of the key commodity materials on the time to reserve work facilities. And also, we're looking at bringing modular construction to the next 2 plants. All of those are factors that should bring down inflationary impacts.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So these are large capital investments for Eastman. When you think about the returns of the projects that you plan to build, how do you approach it? Will you build the plans and see if the customers come? Do you want a certain kind of customer commitment before you build the plant or a certain level? How do you approach the building of the next 2 plants?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

Yes. So I would say for the audience and those online, there's 2 business models. The first facility that we've constructed at our Kingsport, Tennessee facility is our Advanced Materials. So it is about, I'll call it, the innovation cycle and we've got a decade of growth. In that business, polyesters compete on, I'll call it, clarity, chemical resistance and toughness. And now we're bringing a fourth dimension that our competition and also alternative products can't compete with, which is sustainable products with lower LCAs. And we compete there on the value created for our customers, and it's a win-win as we make their applications at the consumer level.

An example would be we've been using a bridge technology for over the last 2 years, where we're bringing our renewed products to the market. So our customers have been able to test consumer demand, consumer pricing around a sustainable product versus a fossil fuel product. And there's great opportunity as we think about space for us to enable our customers to win as well as Eastman in that business model.

And I'll go next to the second U.S. project. The second U.S. project is about providing a sustainable solution to the packaging industry. This is not about a product. We've been clear. We exited the PET business in 2010. This is about a solution that we can provide that is sustainable and also meets the fitness for use in applications. Mechanical is needed for -- to have a successful recycling for us as consumers. But it can only meet certain levels of fitness for use, whereas molecular recycling is infinite and we can provide that to companies and partners like PepsiCo.

We can do that in a manner that's over a longer-term contract with sustainable product margins so that we deliver solid returns for our investors. As you would think, you're moving multiple factors forward. So those factors include contracting strategy for customers, feedstock strategies, the construction that we just talked about, government policy and incentives. And as you wrap up that all together, you're bringing that forward and we've committed to be disciplined. I think Eastman has a track record and a history of being disciplined. So we're bringing all of those forward and as we hit those milestones, we'll hit the financial investment decision.

But 2 different models, and you can think of the France project as being roughly 50-50 between the 2 models. As we look to grow our specialty plastics asset footprint in the markets where there is demand for sustainable products like France and the EU and then also supplying some of our key global partners within that market as well for packaging. So that's the business case, and we continue to be disciplined. We're excited with the fact that as you think about Eastman being leveraged to the economic recovery, that we have this plan in Kingsport coming up now That enables us to accelerate the recovery because of that unique differentiation of adding a new capability that our peers and competitors cannot.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So if -- I'm trying to understand exactly what you've said. So before you build the next 2 plants, there's a certain level of customer commitment based on milestones that you would hit that you wish in advance, is that the structure? Or you'll build the plant, it will be a good product. And then what you'll do is you'll see what the demand is like and what the returns are like.

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

For the circular solution?

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Yes.

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

We will have the contracts signed before we do the construction of the facility. As we think about our global footprint for our specialty plastics and the innovation-driven growth model, there, it will be about how we're seeing the demand, how we're seeing the recovery in our key end markets like durables, personal care, medical. All of those will come into it. And as we fill out the capacity and build the Tritan facility, there will be decisions that we will see progress as we make that decision on France.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So is it fair to say that this business model is different from all of Eastman's current business models because what you wish to have is more of a fixed return or a minimum fixed return on the capital that you put in the ground?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

For the circular solution?

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

For the circular solution.

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

That is exactly correct.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

It's funny because Eastman historically has generated an enormous amount of free cash flow, and now your capital expenditures are higher in order to support this level of growth. But it seems that what you want to do is you want to trade the lower free cash flow generation for a higher investment return that's more predictable over a longer period of time. Is that fair?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

I would say it's fair, and I would just highlight, to your point, over the long term Eastman has been a strong operating cash flow generator. As we think about -- as strategies evolve and how you allocate that, I think, we've also been balanced in growing our dividend, allocating any excess cash to share repurchases when we're not applying that bolt-ons or organic growth. But with the demand that we see, with the economic environment on a go-forward basis, we think that there's better returns that will be consistent as we look at our Fibers and Chemical Intermediates cash flow and reinvest this into a sustainable future.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So my memory is that this technology is old Eastman Kodak or is a developed version or an evolved version of old Eastman Kodak technology, where it would take X-ray film and break it down to its chemical components and make new film. It's hard for me to imagine that other companies can easily do this, in that you've been working on this off and on for decades. Do other companies have similar polymer technology? Or when you look across the competitive landscape, do you think other companies are bringing these kinds of plants onstream?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

Yes. One thing I would clarify is there's lots of technologies. And often, I like to be clear that in the polyester space, I would say, we're unmatched with our history. So we have 70 years of polyester technology history of operations. To your point, we've operated the technology that we're bringing to market, obviously enhanced to handle a broad base of feedstocks. But we did that for 30 years. And polyester renewal technology is very different than pyrolysis. As we look at what we're doing, we're taking out asset footprints. We're taking what was already a purified fossil fuel and recycling that into its molecular components, that's DMT and ethylene glycol in this case. Pyrolysis is putting it back into a cracker or an earlier stage of a cracker. So from that, we're differentiated.

Also, as I think about the scale of operations and the global footprint that Eastman is bringing to bear, we're operational right now with the polyester renewal technology and methanolysis. We're seeing and see how complex it is for someone that has the history and the capability, so it reviews my confidence that, that first-mover advantage will be important and potentially longer than I would have even expected.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. So maybe if we can switch to, I guess, the 2024 earnings environment. When I think of Eastman's earnings aspirations for 2024, I think your stated range is something like $7.25 to $8 versus $6.40 last year. The largest component of the earnings growth is volume. What are volumes like? And how volumes become year? And how do you feel about 2024 earnings?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

Well, sitting here today, Jeff, what I would highlight is, I'll call it, the highest level. I would say we're in line with the expectations that we set out in early February. As I go through our segments, first, I'll start with Advanced Materials. Specialty Plastics and our durables business within that business, I would actually say is a bit better as we started the year. I think it's confirming that destocking has played out and that we're seeing a little better momentum.

As I think about our films business and I think automotive in general, it's been a bit slower in China to the start of the year. I think that's broadly seen across the transportation sector. So that's starting out a bit slower. We'll see if that's -- Chinese New Year, we'll see if that's consumer is waiting on, I'll call it, the liquidity that the government is going to put into market. But typically, it's just a transitional. So sitting here today, we actually expect Advanced Materials to still be in line and approaching that $100 million expectation for the first quarter. And with -- again, we've seen momentum through the quarter as we had outlined that we would expect to see.

As we look at Additives & Functional Products. On the ag front, I would say there, that it's better than we had expected better. And that maybe our expectations of the continued destocking were more than is actually playing out. As you think about other end markets like coatings, personal care, those are pretty much in line with expectations. So I would expect Additives & Functional Products to actually be above the guidance for Q1 that was...

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Because of agriculture.

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

And primarily because of agriculture. On the Fibers front, I would say, our volumes are coming in, in line with our expectations. But I would say on the operational cost front, we've all seen lower natural gas at our Kingsport facility. That's a key part of the operations for that business and that's playing out better. So there, we expect Fibers to be above our expectations that we had previously guided.

Now coming to the Chemical Intermediates front, we had some modest impacts from the winter storm. I would say propane early in the quarter was quite elevated. And as you think about from the cracker to the derivative, it's been a headwind. So probably a little bit lower than our original guidance. Ultimately, there's some positive things on the CI front as we're seeing that mitigate here in the back part of the quarter.

You're also seeing, I'll call it, in the acetyl chain some operational difficulties. Those are probably solidify that sequential improvement in the Q2. But sitting here today, again, like I said, I think we're solidly in the range that we had outlined. And that also includes the impacts of a slower start-up for our methanolysis facility.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

When you take a step back and think about Chemical Intermediates just for a moment, one of the things that you said which I think is true is that propane prices have come down a little bit, and part of it is seasonal. And it's also the case that propylene values have really moved upward. So is

Chemical Intermediates poised -- things can change. But is it poised for more strength in the second quarter than you saw in the first as a base case?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

Sitting here today in the factors you described, if that were to play out, the answer would be yes, that -- obviously, there's also the timing of the flow-through of the benefit of the lower cost structure, which as you highlighted is seasonal.

The other aspect continues to be how do we see the demand uplift and then the China economy. So how many products are coming from China into Europe and do they come to the U.S. So we still need, I'll call it, strengthening in areas like industrial, building and construction. But what you outlined from a, I'll call it, input as well as just propylene, those factors would be positive from a trend basis as we've gone through Q1 and set up for Q2.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Is this a year where your development costs are meaningful? And how does Eastman think about its development costs in the light of the new products that it wishes to bring to the market and the progress that it wishes to make in the circular economy?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

I think as we go through the year, obviously, the cost of the first project, and we keep most of the development costs for these products not within our segments but within other, I think you can expect the development cost to be most elevated here in Q1 as we're starting up the operations and proving out the plant. Additionally, as we were talking before we went on the air, there's products like in our carbon renewal technology, like Aventa, where we're gaining momentum.

As we do with our customer base test marketing, we take, I'll call it, recycled content into our carbon renewal and our gasifiers, combine that with wood pulp that's certified. And you've basically got biopolymer with sustainable inputs. And now we can take that and go into the marketplace and compete with a product that is certified for composting not only in industrial, but in the home environment. And obviously, there's tensions in certain applications. You can think of trays that your poultry sit on. So we can take that from a polystyrene and put it into a biopolymer that meets consumer and food great needs.

So we're excited about that innovation. Obviously, you've got to show a level of results. As a CFO, I'm going to tell you that we've got to deliver on our $75 million and also on the milestones of each of these programs. It will be elevated here in the first half. It would come back to more normalized as we go through the year. And then as we hit the milestones with other projects, we would update you on where those development costs would go.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So we cover some of the packaging companies and some of the packaging companies have talked about innovative products that they have for all different kinds of meats that replace expandable polystyrene. You don't need various pieces of material to absorb liquids, and they very much like the product. Do you sole source it to anyone? Or are these products that you sell across the board to any packaging company that would want to use them?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

Yes, Jeff, great question. As I sit here today, we're dealing with brands and then we're dealing with the supply chain. So there's not exclusive arrangements. We're excited about the demand that we're seeing. To your point, there are certain partners that are at different stages in the test market. But this is about Eastman being a sustainable solutions provider. We've talked about the polyester renewal. You combine that with the carbon renewal, and that is the focus of our strategy, enhancing the quality of life in a material way with these solutions that no one else can provide.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So one the things, I think, that's on the mind of investors are changes in prices. And when you look at Eastman, you have a very integrated model. And I think that in general the prices have been positive in Advanced Materials and the prices have been more negative in adhesives and functional products -- Additives & Functional Products. Why is that? Or where are the price pressures that you're experiencing? And where are the areas where there's still room for pricing?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

So as I think about -- I'll speak to your point on Additives & Functional Products first. As we think about that business and the footprint, so personal care, ag and those end markets, there are input costs that are quite variable. And that's where we have cost pass-through contracts so that we have those, I'll call it, consistent margins over the long term that are generating returns on these assets. So those contracts are because we can provide the solution for those companies. So in that sense, I'll say that, that's more like what we're trying to drive with our sustainable solutions as well.

I'd say on the Advanced Materials front, there again I think in 2023, we made significant progress on resetting our prices in the films portion of our business. The prior year, there have been substantial industry issues in supplying VAM, PVOH. And those contracts have been adjusted to enable that to not to occur in the future when there's a dislocation like that. So all in all, both of those businesses, it's about the value creation that we can provide by taking our technology, the market insights of going downstream and with our direct customers and then delivering a solution and application that differentiates them in the marketplace.

And different contract structures enable you to achieve that. So there, I'm more focused on the volume and the recovery because, I'll call it, the margins and the value creation is there at the margin level in both Advanced Materials and Additives & Functional Products. Last year, we had a $450 million impact due to volume mix.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Negative.

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

Negative. And as we -- as I sit here today, we're seeing 85-plus percent of our end markets that we can basically say destocking has played out. Now it's at, what, pace does primary demand improve, move forward. And with that, how does supply chains restock? Those types of upsides of restocking are not in our base case forecast.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So is it the case that you can feel the durable goods market recovering? Or are we still shrinking in volume terms but at a much slower pace?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

What I would say is, at this point, we can -- it's clear that the destocking is over. To your point, we're not calling an inflection. There is a belief that as the general economic that we will grow with that recovery versus it's still contracting. We do not see that.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So one of the very successful parts of Eastman's income statement or its sort of segment performance is its Fibers business, in that I think you went from something like $140 million in EBIT in 2022 to maybe $420 million in 2023. Are those numbers sustainable over a longer period of time? Or was 2023 unusual for you?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

I would say 2023 was the culmination of a multiyear by our commercial team but also as the industry has evolved. So at a high level I would highlight, one, the decline of tow used into the cigarette applications has declined at a slower pace. And in many cases, the sophistication of the filters, as those have evolved into new product applications and the brand launches has actually consumed capacity because these new filters run at slower rates, so that's taking capacity out.

Additionally, in Eastman's case, whether it's Naia or products like Aventa that's consuming our flight capacity, those are at variable margins that compete with our acetate tow business. We're indifferent. We want to work with partners that innovate and also that will pay prices that -- a sustainable return that we can reinvest over the long term. So as you think about that playing out over multiple years, along with additional suppliers in the market, taking out capacity and refining that has led to where we are today.

I believe that, that can be structural. The confidence that we have in '24, '25 and even '26 sitting here today is we've got multiyear contracts that are in place. And we're not letting those run out. We're looking at how do we re-up those as each year comes out so that -- again, from an investor base, that people have confidence into this being the cash flow that enables us to fund our growth and innovation without having to go to the capital markets to do so. So it's a strength. I think this is back to where it should be, which is where it was in 2014 and prior versus the $120 million was the right normal spot.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So maybe to conclude, Eastman is self-financing, that is your financial leverage is not rising. Is there room with your investments in methanolysis over time to repurchase shares or to return more cash to your shareholder base?

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

So yes, I mean we have a growing dividend. We increased that, I guess, for the 14th year this year. Also, we've highlighted that we'll be repurchasing more shares in '24 than we did in '23. We're disciplined. We're going to keep a strong investment-grade balance sheet. Part of that is with the growth of EBITDA with, I'll call it, the core recovery. And then as we add the growth from the investments in the Kingsport facility and beyond, that will enable us to do both in my view.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. Thank you very much for coming, again, this year. And we hope to see you next year and we hope to hear an update on the methanolysis technology again.

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

Excellent.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. Take care.

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

Thank you, Jeff.

Jeffrey John Zekauskas - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Thank you for your attendance.

William Thomas McLain - *Eastman Chemical Company - CFO & Executive VP*

Thank you, everyone.
