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EDITED TRANSCRIPT

EMN.N - Q2 2025 Eastman Chemical Co Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, everyone, and welcome to the second quarter 2025 Eastman conference call. Today's conference is being recorded. This call is being broadcast live on the Eastman website, www.eastman.com.

We will now turn the call over to Mr. Greg Riddle, Eastman Investor Relations.

Please go ahead, sir.

Gregory Riddle - *Eastman Chemical Co - Vice President, Investor Relations and Corporate Communications*

Thank you, Becky, and good morning, everyone, and thanks for joining us. On the call with me today are Mark Costa, Board Chair and CEO; Willie McLain, Executive Vice President and CFO; and Jake LaRoe, and Emily Alexander from the Investor Relations team.

Yesterday after market close, we posted our second quarter 2025 financial results news release and SEC 8-K filing, our slides and the related prepared remarks in the Investors section on our website, eastman.com.

Before we begin, I'll cover two items. First, during this presentation, you will hear certain forward-looking statements concerning our plans and expectations. Actual events or results could differ materially. Certain factors related to future expectations are or will be detailed in our second quarter 2025 results news release during this call, in the preceding slides and prepared remarks, and in our filings with the Securities and Exchange Commission, including the Form 10-K filed for full year 2024 and the Form 10-Q to be filed for second quarter 2025.

Second, earnings referenced in this presentation exclude certain non-core items. Reconciliations to the most directly comparable GAAP financial measures and other associated disclosures, including a description of the excluded and adjusted items are available in the second quarter 2025

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financial results news release. As we posted the slides and accompanying prepared remarks on our website last night, we will now go straight into Q&A.

Becky, let's go ahead and start with our first question, please.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

Patrick Cunningham, Citigroup.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Hi, good morning. Thanks for taking my question. Look, you're reducing capital spend in 2026, now targeting pretty significant cost savings on top of that even larger in 2025. And this doesn't necessarily signal a stable to modestly improving macro in 2026.

So could you help us understand how representative of the second half should be when we're thinking about trough earnings levels? And with growth projects deferred and lower for longer macro, has your thinking on mid-cycle earnings power changed at all?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

That's a great question and a large one. So first of all, when you think about the back half of this year, it's heavily impacted in the decline by the trade situation that we face. And that's creating a lot of challenges for this industry and especially for the sort of consumer discretionary side of the house. So I don't think that the back half is really a relevant measurement for how the company is doing in total because you've got a lot of situations around what's going on with the tariffs.

I mean when you think about us and the tariffs and the exposure we have in the back half of the year, there's sort of really sort of three impacts that it could potentially have on any company. But the biggest for us is by far what happens with demand, and that was also true in 2019. The second factor, of course, is retaliation that happens in other countries and how you work your way through that, and we do have some high US asset exposure when it comes to that equation.

And then third is direct tariff impacts around raw materials and things like that, which we have very little exposure on because North America is all of our vertical integration and scale in North America is connected back to local raw materials. So it really is a big demand question about what's going on in this year, and what that then sort of indicates for next year as we think about this whole thing. And the trade war is by far, the driver of the demand dynamics in the second quarter as well as the back half.

And as we look at that and think about trade, the first thing I want to say is, there are unfair trade practices around the world, and there are -- there is aggressive dumping by some countries, especially overcapacity out of China and transshipping to avoid tariffs.

So there are real issues here for this industry that need to be addressed. But those, while very serious, need a strategic approach, and the challenge that we're having broadly right now is that, that trade strategy of going to all countries in the world at the same time may create more economic harm than what's necessary as you try and focus on what the real sources of the trade issues are in the country.

And we sit here now where there's a lot of uncertainty. What you've had happen in the -- even in the GDP data you saw in Q2, a lot of volatility of imports going on, private inventory is dropping, there are people who are moving product all over the world to try and get ahead of tariffs, whether

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it's retailers or the brands or all the supply chain manufacturers that support them to avoid tariffs to buy time to see how things are going to get sorted out, take advantage of positives that happened in the second quarter, et cetera.

So it's really chaotic to try and to understand what's really going on in end-market demand. Same question you have around consumers, how much do they buy ahead of tariffs potentially impacting prices in the first half of the year, which is probably why consumption was up versus them being conservative about worries about what they can afford for the year, same with customers, what do they think about demand.

So there's a huge amount of chaos that goes into this whole situation that causes some challenges and complexity in Q2 and certainly is why we expect a sort of mid-single-digit drop in demand for the back half of the year, which is also representing some normal seasonality as well as some of the prebuy as well as customers being very cautious for everything I just said.

So you've got all that complexity, right? I mean a 15-plus or 15% to 40% tariffs as of last night to countries is a big impact to the market. So there's reasons to be cautious and careful about the back half of the year.

So with that, with what our customers are doing and being cautious in July, we sort of built this forecast in this -- and staying focused just on Q3 as well as not really trying to forecast the full back half of the year. So that is a distortion to try and think about what's going on in demand in general.

The second is in that chaos, we've very much decided to focus on cash generation as we told you we would in April. And so we're taking all the actions we can to pull inventory down, generate cash, which, unfortunately, when you do this from an accounting point of view, ends up in a utilization headwind. It's not a cash headwind, it is actually generating cash, but utilization headwind is somewhere around $75 million to $100 million in the back half of the year. So that distorts the back half as well.

So you've got the normal seasonality, you've got all these trade dynamics and you've got the utilization headwind. So the back half of the year is by no means something you can annualize and think about as representing what 2026 looks like.

So your question is, what do we think about '26 and where demand could go there? The answer is, with the current chaos, no one knows where demand is going to go next year. But what we can do is with all the trade deals settling in one way or fashion, at least we're going to start getting some certainty that is always better than uncertainty to calm everyone down and everyone starts focusing on what they need to do in this context.

So that will help stabilize things. You've got the other things that are very pro growth in the US administration from tax bills, less regulation, et cetera. So lots of other things that I think are pro growth outside of this trade disruption that's sort of going to help stabilize things.

So our view is, especially with our challenged demand is this year on top of what was already a bad situation from '22 to now, there is the reason to expect stability in the back half -- I mean, sorry, stability as you go into 2026, which would be equal to or certainly more likely better than where demand is now. But in this context, we have to manage our costs. We have to be aggressive in how we manage inventory because we don't know where things are going to go, and so we're going to take every action we can.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Great. I appreciate the detailed response. I guess just a quick one on the metathesis unit. How far are you along with that investment? And what gives you confidence on a pretty healthy step-up in profitability there?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

I'm sorry, you broke up for a second. Were you asking about E2P or methanolysis. I just couldn't hear what you're asking about.

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Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Yeah. E2P, yes.

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

Okay, sure. So obviously -- yeah, got it. So the Chemical Intermediates business obviously is facing some pretty significant challenges to -- they are the classic example, along with the entire commodity chemical industry of the impact overcapacity coming out of China and other countries impacting businesses. And we certainly see the industry right now at cash cost. And frankly, there's indication some of the products being exported to the world are below cash cost.

So we feel like we're probably at the bottom of the market but we're also constantly looking at how do we improve the structural strength of every business we have. We've done a lot of things to improve the CI business over time. We made the RGP investment. We shut our Singapore plant down, constantly looking at how to value up our mix in North America where our margins are much better than export markets, which at the moment is a challenge because of demand being off, but always looking for every opportunity.

And we told you all the way back in 2021, we had an idea of doing an ethylene-to-propylene investment to convert one of our existing crackers of the three that are at the site to going from ethylene-to-propylene. For those who are not familiar with Eastman, we make a lot of ethylene-to-propylene because that's what crackers do. But if we had PDH 4-decades ago, that's what we're going to build. The propylene is where we make all of our specialties. That's where our value sits.

And then we're left with a bunch of excess ethylene just to run the crackers. So we've always been trying to reduce that. That's why we made the RGP flexibility investment to increase propylene. But we still have a bunch of ethylene. And so what we can do with this investment, we've come up with a lot of insights since '21 to scale it up to a bigger capability, and that allows us to convert ethylene to propylene.

And when you do that and optimize the asset configuration of the site around that investment, you can dramatically improve the earnings by $50 million to $100 million in EBIT over the cycle, and it also really reduces volatility because that's -- a lot of volatility comes out of the ethylene side of the equation. So it's a great investment, and it's a great payback. It's a very short payback for building this capability because we're leveraging an existing cracker to do it.

Operator

Josh Spector, UBS.

Josh Spector - *UBS - Analyst*

Yeah, hi, good morning. I wanted to ask on the methanolysis investments and some of the comments you made about it seemed like you were thinking about you delayed a decision on Longview by maybe 2-years now and you're thinking about expanding Kingsport at some point in the future.

So one, just curious if you could expand on if that right in terms of how you're thinking about it? And then two, what does that mean for Pepsi offtake that you have at the Longview facility? Does that move to Kingsport? Does that get pushed out? How should we think about that?

Thank you.

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Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

So first of all, we're incredibly excited about how well the methanolysis plant is running. It's been a long journey from the beginning of this project to getting it built to getting the startup and working through a lot of construction issues. So it's great to see the plant run well. Incredibly excited to see the rate test the plant could get up to 105% as it is. And all of that is working really well, which also means our cost benefits this year relative to last year are on track to get that additional $50 million of improvement for the corporation.

It also -- when we sort of rate testing it and learning more and more about the facility with its better operational performance, we had become across a variety of insights with some very targeted debottlenecking investments that are very manageable. We can debottleneck the plant and have a line of sight to getting the plant to 130%, and we have some ideas to get beyond that.

And so that's fantastic in this environment, right? In this environment where we're trying to always improve our -- lower our capital intensity and everything we do, and this is a capital-intensive project. I can now get 30% or maybe even more than that. I've improved the ROIC efficiency. So that is exciting.

The second is that additional capabilities, especially right now, allows us to continue to grow the EBITDA to that $200 million that we've told you about and keep going from this facility and have more continuous growth than when we cap out on the capacity of this plant in the original plan and wait for the next plant to start. So we consider keep the continuous growth going. And that also allows us to, in some sense, pull EBITDA forward from the second plant into the first plant as we sort of continue to fill it out.

So that allows us to also have time to look at different options. So we are certainly not happy about losing the DOE grant, and we're highly engaged to try and get it back. That's highly uncertain process. And so we're focusing on what else can we do. And so this ability to debottleneck gives us the time to work on alternative ideas.

And we have a lot of creative ideas about how to take scope out of the project. We have creative ideas of not just looking how to do it at Longview, but looking at three other sites where we might have some better advantages and how to be efficient.

And so there's lots of things going on. We can't talk about the details of all that right now because we're in the middle of doing some of it. But we're pretty excited about the potential to sort of optimize the footprint and find ways to actually pull forward some benefits that we would have had to wait for the second plant.

When it comes to contracts with Pepsi, our contract with Pepsi is still intact and we're still confident that they're committed to working with us as we sort of pursue all these different options. So we feel sort of good about that. And we -- and the other thing I'd note is we're seeing accelerated demand in some cases with some of our customers who are finding mechanical recycling isn't working well on the rPET side for food-grade packaging applications. And so we're getting more and more confident about that fill out.

Operator

Vincent Andrews, Morgan Stanley

Vincent Andrews - *Morgan Stanley & Co LLC - Analyst*

Thank you, and good morning. Mark, was there a particular trigger. It sounds like in July, all of a sudden, the customer dialogue flipped. And so is there something in particular that happened or they were hearing from their customers or just how do you sort of deconstruct exactly what happened, when it happened?

And as you look forward into the balance of the year and into next year, what's the catalyst path or what are the events that are going to need to happen for your customers to start feeling differently about their business and about purchasing? Is it just the end of the trade war, uncertainty, is it lower interest rates?

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What's really changed? And what's the path from here?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

Yeah. That's a great question. So I'd say the insights developed through the month of June into July as we were working with our customers and trying to understand what their views were. The market that's most impacted is consumer durables, which you can imagine are caught up in the trade war since the vast majority of it were made in places like China or Southeast Asia and imported here, and our supply chain in serving that market is incredibly long as we make a lot -- make the products that go into those applications here in the US, send them to Asia. They get made, the product comes back, so you've got a 9-, 12-month supply chain on top of this that we're trying to manage.

And so I think that the trade pause allowed everyone in the second quarter to move material around ahead of potential escalation on July 9. And so everyone did that. I mean every company, like I said earlier, from retailers to brands and manufacturers to people like ourselves. Because of North America, we had to move things to different places like Asia when we're making it here, that sort of factor into our supply chain being a bit longer in our need to move things being a bit higher because of where we are making it in the US and the risk of retaliation.

So you're working through all those dynamics with your customers. And I think that as they look to the back half of the year, they became cautious. I think the words were holding orders as opposed to canceling. I think it's important to say, as a way to sort of wait and see how all the trade situation was going to resolve itself one way or another, and then they have to naturally factor that into where they think consumer demand is going to go and how they sort of either serve those markets or not, because while people are moving inventory around all over the planet, they're also trying not to increase inventory too much in total because they are unsure about the back half economy when the consumer is more likely to be impacted, right? I mean these tariffs at these rates are likely to show up in inflation.

I know there's a lot of debate about that. But the margins, at least in this -- in the consumer durable industry, pretty thin when it comes to the manufacturers in Asia, the retailers here. So some portion of this has to get passed on. It can't be absorbed. And even if it's absorbed, people are going to have to lay off people, which impacts the economy. So somewhere in the world. So this dynamic is going on there.

I think it's very much going on in the auto industry, plenty of news flow on that, but probably likely some prebuy there that the auto companies have to think about as far as what they think demand is going to do in the back half for them and either the Building Construction segment, same dynamics, obviously, weak and challenged.

And that half of our revenue is sort of where we're seeing these impacts. Customers are working with us. And I think what we've got in our forecast represents the caution in July. We're assuming things get a little bit better in August and September, with some of this trade certainty coming into place, and we're just going to have to see how it goes.

But the key for us is focus on what you can control cost, cash, driving methanolysis forward, finding capital efficiency keeping our CapEx low, et cetera, and positioning us, I think, reasonably well for earnings to be materially better next year versus this year on the actions that we're controlling and taking.

Operator

Salvator Tiano, Bank of America.

Salvator Tiano - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Yes, thank you very much. So I wanted to check on the autos end markets. I mean you and some other chemical companies today and yesterday did flag that they were weak in Q2 and Q3 could also remain weak. But that seems to be in contrast with both trade consultants and what some of the auto suppliers are saying so far this earnings season.

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So can you provide a little bit more color on where you're seeing the weakness? And specifically in the case of Eastman, of course, is it more on the aftermarket films or more, for example, on the interlayers or any other products?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

Yeah, good question. So on the aftermarket side, Q2 was a solid quarter. So we saw good performance in North America, a little bit more challenged in China. But overall, the aftermarket held up reasonably well in Q2 for the interlayer business or the aftermarket or the sort of automotive coating business saw some challenges as producers around the world, given the tariff announcements were moderating production rates in preparation for where demand may go, right? There's a big question on, once again, how much of this tariff is going to get passed on to consumers and inflation and impact demand in the back half of the year.

So you're trying to worry about how much cars you're producing for the back half of the year. So you got to be a little careful on that front. And then you've got the dynamic of the pull forward of people buying cars ahead of the potential tariff increases.

So I think from what we're seeing, we started the year expecting the auto market to be sort of flat relative to last year, where now our view is sort of low single digits down, which is principally in the back half of the year as opposed to the first half.

So I'm not sure we're that different from what I've seen from other car companies and sort of the underlying market assumptions. If it turns out to be flat in production in the back half of the year, it's going to be upside for us relative to what's in the forecast. So I hope those people that are sort of predicting that are correct.

Operator

Jeff Zekauskas, JPMorgan.

Jeff Zekauskas - *JPMorgan - Analyst*

Thanks very much. In your AFP business, your prices were up 4% year-over-year. Where did that pricing strength come from either by sector or by product line? And in your Fibers business, can you discuss the current state of tariffs and whether that's an ongoing impediment to your business or whether it isn't?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

Sure, Jeff. So on the AFP question, most of the increase in price was driven by our cost pass-through contracts in our care chemicals business where we buy some raw materials that just have a lot of volatility to them that go into the product. So we have very steady margins in supplying our customers in that space. The fatty alcohols that we buy has sort of bounced up and down, and that's really what that 4% is primarily driven by.

One of the great things about the AFP business that has continued to be proven and valued deeply by us is the stability of the price cost relationship in that business across the portfolio, quite a bit of it is in cost pass-through contracts, keeping that stable, which takes to -- which is great, by the way, in removing a lot of debate and tension with your customers in procurement, which is -- let's just focus on how we grow together.

We don't need to continue debating how raw materials go up and down. And so it's part of why you see AFP performing well. When it comes to the Fibers business and tariffs, the principal impact of tariffs inside the Fibers business on a full year basis is certainly the Naia textile business, right? So those has always been expected to decline to some degree with market and capacity being added in China, et cetera.

But the textile business was a source of growth and the margins were pretty good. And so that offset some of the dynamics in the tow business. And it's been extremely helpful in the last 4-years in improving that segment.

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So what's unusual about this year is we're obviously dealing with some issues in tow. But the textile business was impacted, most of that sold in China and then made in textiles that serve the world. And we saw the overall textile market slow down dramatically from tariffs because of the cost of selling fashion goods in the US against those tariffs.

So that industry was already weak last year, but weakened further. So end market demand has come off, customers that we have in China to become more cautious, and that's translated to about a $20 million problem we think, for the year, that spread across 2Q through 4Q, impacting the Fibers business on the tariff side. On a short-term basis, there is some dynamics of some tow being pulled forward into Q2 in Europe to get ahead of potential tariff risks, that will sort of level out. So it's not a full year impact, but it's just a timing impact.

Jeff Zekauskas - *JPMorgan - Analyst*

Okay. And then you described in your remarks trying to lower working capital by $400 million from where we are at mid-year. And you talk about the earnings penalties this year for changing your operating rates. So as a base case, I get it, earnings should rise next year as you move up to more normal operating rates. But is it also true that what should happen is that cash flow next year should decrease.

That is if you're pulling the cash flow forward into this year, does that mean that as the base case, your free cash flow next year will be -- or I'm sorry, your cash flow from operations will be less than $1 billion, if there's no change in the business conditions.

William McLain - *Eastman Chemical Co - Chief Financial Officer, Executive Vice President*

So Jeff, thanks for the question. Obviously, to your point, I think the last statement that you just made, it depends on your outlook and the assumption. I think, as Mark has described, both from the economic lens as well as our assumptions is that we actually think that you can get to a more stable environment as we see tariffs, et cetera, unfold.

With the actions that we're taking in the first half and the timing, obviously, being here at mid-year, we can't fully optimize our working capital scenario. And actually, working capital is a net headwind this year as we look at it overall compared to what we built in the first half and what we're taking out in the second half. So my belief is the $1 billion is the platform at which we'll be able to build off of with higher cash earnings and the potential to still build and optimize our working capital.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank AG - Analyst*

Thank you. Good morning, Mark, just on Q4 reading your prepared comments, it sounds like you're guiding to similar to Q3 of around $1.25. Is that fair?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

Hey David, I think that's directionally correct. I mean the -- normally, we have seasonality as you all know from Q3 to Q4 because Q3 is normally a strong quarter. Obviously, it's not with all the factors that I've described on decline and expected demand in the asset utilization. So when you get to Q4, we're very aggressive in our asset management in Q3. So you're going to get a utilization tailwind because it won't be as aggressive in Q4.

The seasonality that normally occurs has already been put into Q3 effectively. And so we expect things to be somewhat similar. We got to get through Q3 to be perfectly honest, David, with all the volatility with the trade and see how it all sort of settles out and impacts the markets. But our current expectation is what you said.

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David Begleiter - *Deutsche Bank AG - Analyst*

Got it. Understood. And Mark, your volume outlook is a little more severe than what we've heard from other -- from some of your peers this earnings season. Do you think that's due to your business mix, your conservatism or maybe something else?

Thank you.

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

I think that -- when you think about what's going on in the dynamic of Q2 to Q3, in the mid-single digits, there are multiple components, and it depends on the business that you're looking at. And it's important to actually sort of frame it correctly. So if you look at Q2 to Q3 and add back utilization headwind for $50 million, we're basically flat sequentially from Q2 to Q3 when you back out the utilization headwind. And then you're okay, what's going on underneath the surface of that. Well, there are two moving parts, right?

Chemical Intermediates is getting better by greater than $30 million, which means -- especially Fibers is going to be down by $30 million within the guide that we're talking about. So when you think about Advanced Materials and the mid-single-digit decline we're expecting there, what I'd say about half of that is expected market decline, and the other half is this sort of prebuy dynamic of some materials in Tritan, performance films, medical, polyesters being pulled ahead of tariff risk into Q2.

So when you have it there and then the orders don't occur in July for that, you've got that decline. So I'd say it's about half and half market decline, which I think is more in line with what we're hearing from specialty peers, the market participants and then the other half is this prebuy thing.

I'd also note that in this segment, especially when you think about it, two-thirds of this is consumer discretionary, right, between autos, consumer durables and B&C and those are the most impacted markets. They're incredibly valuable markets to us. So as the volume comes off, it hurts. But when the volume comes back, it's incredibly compelling. So that's how I think about the AM part. The Fibers part, I would pretty much say is all prebuy in the moderation we're expecting from Q2 to Q3.

In AFP, this is sort of more normal for its decline. So normal ag seasonality coming off, timing of HTF projects that got completed in Q2 instead of Q3 and a little bit of prebuy in some places is what's behind their mid-single digits. So again, you back out the prebuy and the HTF timing and the market's moderating in a very normal way.

So I think that when we look at it, I don't think we're from an end market point of view, sort of misaligned too much, but we do have exposure, especially in Advanced Materials to these sort of very sensitive markets. So what's going on in the trade environment.

Operator

Frank Mitsch, Fermium Research.

Frank Mitsch - *Fermium Research LLC - Analyst*

Good morning. If I could just follow up on that. Are you sizing the pre-buy at around $20 million or so benefit 2Q versus 3Q? Any color there would be helpful.

Thank you.

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Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

Hey, Frank, that's probably directionally correct. When you follow the math of what I just put out there between Fibers and AM, that's going to get you to sort of that number.

Frank Mitsch - *Fermium Research LLC - Analyst*

All right. Great. And on the $1.25 point estimate for 3Q, you guys put out a $0.20 range for 2Q, and clearly, the commentary based on tariffs, et cetera, is that there's a wide range of outcomes for 3Q. This $1.25, is that kind of at the low end of the range that you're thinking, mid of the range you're thinking? How much of a range in your mind do you have in terms of how 3Q can play out?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

That's a great question, Frank. We put the word around before $1.25. So we see upside and risk to that number based on all the trade dynamics that we have in here. In some parts of the bridge, I'd say, are pretty predictable. So the asset utilization is in our control. We're pretty clear on what that's going to be. Our cost reduction's in our control, clear what that's going to be.

We've had phenomenal commercial excellence over the last 4-years in defending our price cost in our specialties and our market share being held incredibly well over the last 4-years. And we certainly expect to continue that excellence in the back half of this year and into 2026. So when I look at all those things that are, to some degree, in our control, methanolysis running better, et cetera.

We feel pretty good about the quality of our guidance. But to your point that we just mentioned and the comments I've made in this call, predicting demand in customer and consumer behavior in this world right now, there's no predicting it.

And so we did put a range on it. But there is certainly uncertainty in either direction, right? If people really calm down, we could be up in volume. With these higher trade announcements and rates that just got announced through this week have impact on the market, on people's behavior, then it could be down. We just don't know.

And frankly, no one does. There's no way to predict it.

Frank Mitsch - *Fermium Research LLC - Analyst*

All right. So a wide range around -- best guess today is $1.25, but there's probably a bigger range around it than there was the range around the 2Q is kind of what I'm hearing right now?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

I don't know if it's bigger than that range. But I mean, I really think we need to get through this next month. Obviously, if we see things really changing in either direction, we'll update people at a conference somewhere along the way.

But right now, we're in the middle of trying to digest all these announcements that happened last week and this week. So not just us, every customer we have, every retailer, every consumer are trying to figure out, what does this mean for me right now and what am I going to do in this context. So we just got to see how it plays out.

Operator

Aleksey Yefremov, [KeyCorp]

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Aleksey Yefremov - *KeyBanc Capital Markets Inc - Analyst*

Good morning, Mark, to me, you sound less optimistic about methanolysis sales this year and at the same time, more optimistic about next year. Could you maybe talk about this contrast, why there is this difference and any sort of signs of confidence you have into this ramp in methanolysis next year?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

Sure. So it's a great question. Obviously, in our prepared remarks, we've acknowledged that things are going a bit slower. The interest in Renew -- I think, in recycled content is still very much there from an end market point of view, both in the specialties, which is what the purpose of this current plant is aimed at serving as well as rPET, which is partially going to be served off of this facility as a way to fill the assets. And then as we migrate and upgrade specialties, we'll move that PET to the second plant.

But when I look at the overall underlying dynamics about demand, you are attached to the underlying market, right? So we've proven in Tritan over the last -- over more than a decade that we can grow well above the market by being BPA free and substituting out other the materials and taking market share and growing incredibly well. And that's true. But there's still some connection you have to the market.

So if the market is incredibly challenged, it's going to moderate the rate at which your customers launch new products that have your Renew content in it, which we've talked about. So that's the short-term dynamic of everything we've been talking about in this call when it creates that challenge in durables, it slows down the rate at which people are adopting new features and launching new products in that space.

Even true in luxury cosmetics, that market is also a bit challenged and moving a little bit slower as another key market. But what I would say is, we're not seeing any signs where suddenly, people think plastic waste is good, right? A lot of people are debating climate, but I haven't seen anyone debating the plastic waste and wanting it out of their environment and not impacting their lives.

And so that's not going away. The rate at which customers want to solve this problem when they're incredibly economically challenged this year from tariffs, what raw materials they are buying or market demand that's not that strong. The rate at which they adopt is slowing down.

But as you get to economic stability, I'm pretty confident that this issue is going to be important and the responsibility of the brands have to address their plastic waste in the environment is going to be there. There's going to be continued pressure and there's lots of regulation that's still happening in Europe and the US driving it. So in this context, we still have over 100 customers on the specialty side committed and buying and paying premiums. We're just not ramping up orders as fast.

We're not seeing order cancellations. We're just not seeing the ramp up as fast as we'd like. And as I mentioned on the rPETside earlier, we're picking up more interest in demand for next year. We don't have it available this year because we're still in the middle of switching our Tritan line over to making PET where we'd be selling it now. But as we bring that on in the fall, and those -- two of our largest brands, in fact, on the rPET side committed to meaningful volume next year.

And what's most interesting about that is it's because mechanical rPET is not working in some of their applications. They're having performance issues, color issues, integrity issues around the product on the mechanical side. And so they need chemical recycled product, which is identical to virgin to have recycled content for it not to be brown or yellow relative to other products on the shelf or not being able to make bottles quickly enough because of integrity issues, et cetera.

So that confirmation that we have a differentiated value proposition in rPET with chemical recycling, and we're the only player in the world that can do it effectively. Well, I think -- still think this is going to be a big competitive advantage for us and create a lot of value in the future.

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Aleksey Yefremov - *KeyBanc Capital Markets Inc - Analyst*

Thanks, Mark. And if you had to guess next year, Fiber is flat, up or down in terms of earnings?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

Great question. Thank you for it. It's one we're spending a lot of time on and focusing on in the Fibers business and the decline we're seeing this year is certainly more than we expected at the beginning of the year. And to sort of frame the Fibers conversation, I want to sort of unpack what's going on within the segment. One question already came up, which is what's going on in the segment, and I highlighted textiles as a $20 million headwind within the segment.

In addition to that, there's about a $20 million asset utilization headwind as we're pulling inventory down here to free up cash, just like we're doing in AM and other parts of the portfolio. And I would say the utilization impact here is meaningful for the segment at $20 million. And then there's about $10 million to $15 million of higher energy costs that's not covered by the cost pass-through contracts.

So when you look at that, put those all together, that's about 40% roughly of sort of where the decline is headed, roughly. And that gets you to thinking about those businesses. And both the asset utilization comes back as a tailwind next year as long as we have growth in textiles and Aventa and other things. So the vast majority of that utilization headwind is before you get to spinning tow and the making of the plastic and the stream that feeds into it. So any growth anywhere in the portfolio on cellulosic plastic, we'll actually -- we sort of turn that $20 million into a tailwind for Fibers.

And then you've got recovery in the -- textile business that we are moving with our customers outside of China as they're trying to manage their tariff exposures as well as winning business and new accounts around the world and finding ways to get some of our Chinese business back as sort of tariffs have settled a bit.

So all that sort of becomes an offset relative to whatever happens in the remainder of the decline this year, which is tow. And on the tow side, what I'd say is we don't see a shift in market, still declining 1% to 2%. We always expected losing some volume as the Chinese capacity came online and everyone had to adjust their market shares to sort of make room for that capacity.

But the volume is turning out to be worse than that because there's a bunch of destocking going on as we talked about in prior calls where people are holding a lot of safety stock and now are feeling a little more safe about not needing as much safety stock and destocking and they were clearly holding a lot more inventory than we expected.

But there's another dynamic going on as well, which is we had some medium-sized customers that were very aggressive in wanting to grow their market share in the cigarette industry, and we're adding capacity for that and building inventory to fill that capacity and signing contracts that committed them to grow that volume with us and having our support.

But unfortunately, these customers were not successful in growing their share and actually ended up losing a little bit of share so far. They're obviously not happy about that, and they're trying to take their share back. But in this current situation, they're trying to destock the inventory that they built for that growth, it's not playing out.

And for us, when we had that expectation of that growth, and we had sort of given up some share with our price discipline and a few other places in this market context, we had an expectation of how volume would net out that isn't playing out the way we expected. The range of actions we're planning to take right now to address this situation and be very focused on maintaining stability for us in this market. And so that, I think, is sort of where we -- how we got here. We didn't really get some of these insights from these medium customers until the second quarter, which is what we're adjusting to now.

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From a destocking point of view, well, there's a lot of destocking certainly going on this year. There's reason to expect it next year. It will be less than this year from what we can tell. And we've got all these offsets of things like utilization and textiles, et cetera, being an offset to this tow dynamic. So when you put it all together, we think we can stabilize the situation as we go into next year.

Operator

Kevin McCarthy, VRP.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Thank you and good morning. Mark, in the prepared remarks that you released last night, I think you mentioned that you're now targeting additional cost cuts of $75 million to $100 million. So can you maybe elaborate on the actions that you're taking and how those savings might flow through the financials over the next I don't know, several quarters here.

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

I'll let Willie hit the cost reduction targets, and then I'll add a couple of comments to that.

William McLain - *Eastman Chemical Co - Chief Financial Officer, Executive Vice President*

Thanks, Kevin. Good morning. Obviously, in this environment, we're focused on building on the improvements that we've made here in 2025 as we enter '26, and we've got detailed plans that will be pulling together in the back half of the year that enabled us to again deliver another $75 million to $100 million as long as the environment continues to persist.

I would say also, just to highlight that our actions do not reflect the change in our strategy as we think about innovation and excellence in how we execute, having an efficient and effective cost structure goes hand-in-hand with achieving that and generating returns over the long term.

So our actions range from optimizing our contract partners, and then the overall usage of that. I think we've shown in multiple economic environments that we ultimately take structure that looks fixed and make it variable. As we think about reliability and maintenance execution, that is a focus as we continue to enhance and deliver reliability over the long term and reduce overall maintenance.

As we think about purchasing an MRO for -- in this environment, as we're going through tariffs right now, we're looking at how do we optimize that supply chain and ultimately, overall mitigate and reduce that cost structure. Energy efficiency, as Mark has highlighted, energy is a headwind this year, and that's core, and we have opportunities on that front. And obviously, in this type of environment, it will also result in reduced labor cost as we think about the year-over-year performance.

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

Yeah, what I'd sort of like to add to this is it came up earlier, where do we view the world next year? And are we really worried about getting worse? First of all, to be clear, you can't annualize the back half of this year with what we're going through. You can't -- you've got all this asset utilization headwind that's distorting. You've got normal seasonality that you'd always have to correct for a little more 55%, 45% first half to back half normally, and you've got the sort of prebuy dynamic and just the absolute chaos of tariffs and how it's impacting demand behavior in the marketplace.

So I can't do that. So when we think about cost structures and what we're trying to do going into next year and really think about, on a full year basis, how do we go from this year to next year, which I think is a better way to think about it. These cost actions are incredibly important. But what you didn't hear Willie say is we're shutting down a bunch of plants and rationalizing them. A lot of the industry right now, both on the specialty

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and the commodity side are rationalizing plants entirely because if they're doing that, they don't see that demand coming back in the future. We're not doing that.

We're actually confident with our innovation and the way we find ways to value up our facilities and grow and leverage them efficiently like we did from PET to copolyesters. So Tritan or standard interlayers to acoustic interlayers to HUD, we believe that our asset base outside of some tweaks here and there is well positioned for the growth that we would expect to have in '26 and '27 and beyond.

So that's -- so when you think about that $100 million that helps improve earnings next year to this year. When you think about the asset utilization, once again, focused on cash and discipline, that $75 million to $100 million headwind becomes a tailwind. And the way to think about that as a tailwind, if the demand is really as bad as the back half of this year, it's a $50 million tailwind in utilization next year. If it gets back to the front half of this year, it's a $100 million tailwind relative to this year, just how those utilization numbers work. And to be clear, the demand was not strong in the first half of this year with all the dynamics that we're facing.

So we feel good about that being a tailwind for next year. We've got all the innovation going on across the portfolio growing, of course, the revenue on the Kingsport plant, as we talked about. There's growth that we have and can see in new HUD interlayers on the Aventa products gaining traction and being key to driving that utilization and the cellulose extreme, new products in cosmetics and specialty plastics, et cetera, recovering Naia.

We do think we'll continue to have great discipline on managing our price cost, and so that won't be a headwind or a tailwind, but good to defend and manage and prove about the value of our products by doing that 4-years into a difficult world. It's reasonable to expect there will be some recovery in CI.

And of course, with our cash discipline and improving operating cash flow next year versus this year, more cash to return to shareholders, especially since we're able to delay the step-up of the next methanolysis plant due to the advantages we have in debottlenecking the current one. So I think we're well positioned to recover next year. But as I said earlier, no one can predict where the absolute economy is going to go at this stage.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Appreciate all the color there. Just to follow up on your add-on comment, Mark, and listening to you. Is it fair to say that as the US goes into this new tariff regime, you do not anticipate any large changes in terms of portfolio composition? The reason I ask is in the second to the last paragraph of the remarks, there was some commentary about addressing underperforming parts of the portfolio and a reminder that you've divested certain businesses in the past.

It doesn't sound like you have anything larger than a bread box under consideration right now. Is that fair?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

In the short term, I think that's fair, Kevin. I mean, I think that -- and just to be clear, there's optimizing capacity and then there's thinking about what businesses belong in the portfolio, which are very different questions.

On the first question around optimizing capacity, we've done things like optimize some production inside our Massachusetts site in interlayers. So we shut the Singapore plant down. And optimize some capacity and heat transfer fluids to align with market conditions. And none of those are big significant cost cut steps, but it's just being conscious of managing cost structure. And we'll continue doing things like that across the portfolio.

That's part of what Willie is talking about when we have network asset optimization. The E2P investment in CI is a structural investment to improve that site's performance. And so the -- as we are more prepared to get into the details of that, we'll give you more insight on what that means. But again, we're not shutting the entire site down like in Europe, there's just major sites just all being shut down by companies left and right, probably going to be to 30% shutdown by the end of the year over the last 4-years. So we're not seeing that.

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When it comes to portfolio, we're always disciplined. I think we've proven that. We've proven with adhesives and tires and the acetic acid plant, if you want to go back far enough in history, we proved it from 2006 to 2012 in divesting a lot of underperforming businesses. And we'll always keep an eye on that and look at what belongs in our portfolio and be open-minded to things that can be segregated and separated from the company. Integration does create constraints on that.

But certainly, right now, at the bottom of the market is not a time where you look at doing things like that.

Gregory Riddle - *Eastman Chemical Co - Vice President, Investor Relations and Corporate Communications*

Let's make the next question the last one.

Operator

Laurence Alexander, Jefferies.

Laurence Alexander - *Jefferies LLC - Analyst*

So just to follow up on the innovation points you brought up. What are you seeing in terms of customers delaying versus canceling or accelerating their investments in evaluating new alternatives or innovative products? Is the uncertainty leading to a freeze in activity? Or is it helping you on that front?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

It's great. But you're talking about across the portfolio, and I think I've already hit it.

Laurence Alexander - *Jefferies LLC - Analyst*

Yes, across the portfolio (inaudible) your customers because that's always been one of your differentiation. Just curious, is it becoming a demand pull for '27, '28, '29? Or is that becoming more of a concern?

Mark Costa - *Eastman Chemical Co - Chairman of the Board, Chief Executive Officer*

What's interesting across the portfolio, I'd say is customers are still highly engaged. They like us, realize that to get out of a weak environment, you got to create your own growth. You can't just sit there and wait for things to get better. And you also want to maintain your differentiation against competition.

So whether it's next-generation HUD and different versions of that, we're seeing very strong engagement in the auto industry as well as specialized products necessary for the EVs, which are still growing in lots of parts of the market. You see a lot of engagement there. lot of engagement around Aventa as a solution.

Polystyrene is being abandoned in a lot of food tray applications or straws on this side and the other -- and the retailers or the food service companies need products to sort of solve those problems. So the engagement there has been very good along with new products we're always launching in specialty plastics. So those, we have a product that replaces polyethylene coatings for paper cups and other sort of paper food applications that has strong engagement.

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So across the circular platforms, across the automotive space, personal care space, et cetera, we're definitely seeing engagement. But the rate at which they're adopting is still constrained about economic reality here in the short term. With all this, everyone is just focused on how you manage costs and get through these tariffs. But the great news is it has not resulted in a pause on engagement on innovation.

Gregory Riddle - *Eastman Chemical Co - Vice President, Investor Relations and Corporate Communications*

Thank you very much, everyone, for joining us today. We appreciate your time. I hope you have a great rest of the day and a great weekend. Thanks again.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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