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EDITED TRANSCRIPT

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

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Patrick Cunningham *Citi Infrastructure Investments LLC - Analyst*

PRESENTATION

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

All right, good morning. So for our next fireside chat, we have Eastman Chemical here, and I'm pleased to be joined by William McLain, EVP and CFO. As many of you know, Willie has served as the CFO since 2020 and has served several high-level finance and accounting roles throughout the organization in the US, Asia and Europe and has worked with business teams on strategic planning and portfolio optimization since joining Eastman in 2000. Willie, thank you for joining us here today.

Maybe we'll just start with your overall state of the union, given limited visibility on demands, broader concerns on consumer industrial activity, it would be helpful if you could frame how you're thinking about the demand environment quarter-to-date entering next year across your end markets.

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

Okay. Patrick, thanks. Great to be here today and appreciate everyone here in the audience. As we think about -- I guess, we're now four weeks out from when last reported. I'll start with the press release. In Advanced Materials and Additives & Functional Products, as we had talked about in the quarter, October was a very good month. I think there's a bit of elevated caution as we've continued to progress through the quarter.

And really, the question is how the customers and the supply chains end the year here, right? So to your point, I think the lack of transparency in the supply chain and end markets, a couple of weeks of visibility, and people choose to push things into January, they could still do that. But I think you've got a little bit of positive and potentially a little bit of choices of where they choose to push things out.

I would say demand overall is probably a bit lighter than we expected, but that's being offset by great cost control and utilization as we look at the quarter. So all in all, for Advanced Materials and Additives & Functional Products, we expect earnings to be in line with how we guided at the conference.

As I look at Chemical Intermediates, I would say it's a bit more challenged in the chemical intermediate space. Demand in North America, I'll call it has deteriorated a bit as we've gone through the commodities, especially here in the Intermediates space.

Additionally, during the quarter, we also had one of our large crackers being turned around. It's taken us a bit longer. It's normally almost a 60-day turnaround from a plan perspective, but it's taking us longer to get that back up to full rates and with the North America deterioration, I think everyone can see that the olefin spreads are also contracted a bit more.

So for the Chemical Intermediates business, we had said that it would be positive for the quarter. We actually think it will be a bit below breakeven as we combine all of those factors together. And as we think about fibers on the earnings, we continue to see the destocking. It's probably a bit worse overall.

But as I take all these factors together, we gave a range for the quarter. I think we're going to be a bit below the range here in Q4, and it's primarily due to the Chemical Intermediates, both the demand side and the prolonged turnaround, which is really a fixed cost absorption issue on that front.

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Pivoting to the cash front, I would say we're still well on track to approaching $1 billion with the actions that we took during Q3 on the inventory front. On the inventory, if you take the action in Q3, you're not going to turn it into cash this year, it will be next year. So still confident in approaching $1 billion of cash for 2025.

QUESTIONS AND ANSWERS

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Got it. And just for clarification there, the range there you had, I believe, was $0.75 to $1 or what was it?

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

That's correct. So we think we'll be a bit below $0.75.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Understood. And maybe just a good segue to specifically on sort of inventory side, both your own management and customers management. I think like you had called out while your customers hadn't built that much inventory. There was some inventory built ahead in the first half that's been pushed into the second half. So any progress on how that's developing and how customers might be positioning for 2026?

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

Yeah. So to your point, I would call -- there were two items that fundamentally led to taking decisive actions in midyear. So one was obviously in our Fibers business, the level of destocking and our multiyear contracts, our customers going to the low end of the ranges as they destock the ambition. We course corrected on that in Q3. Also in the long supply chain that we have within our Specialty Plastics business.

So we're bringing up a Tritan facility, and we built some inventory into '24 that we needed to ultimately make those asset conversions. Obviously, that was pre-liberation day. And post-liberation day, the demand has been impacted at the same time, we needed to take inventory down. So that has taken longer, but it's still the right strategic decision to ensure, I'll call it, the seamless transition of those assets.

And that's been evidenced and I'm sure we'll talk about it later by the demand in the packaging sector that we're seeing for 2026. We will have the right balance of Tritan as well as copolyester as well as recycled polymer capacity. So we're working ourselves through that, and we substantially, I'll call it, corrected that here in Q3.

Then it's just the overall supply chain for our Specialty Plastics being long and multistep. We've made investments and we continue to make investments in transparency and using digital technologies to better plan our assets and demand around the world. This is -- as we saw in Q3, I think over half of the impact of the utilization was in Advanced Materials and Specialty Plastics. We will continue to work through that to make it better. But at the current levels, assuming demand played out as we've highlighted, we think our inventory will be at the right levels that we wrap up 2025.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Got it. That's helpful. And a question I had on AM segment more broadly is just -- obviously, you talked about the inventory shifts, negative fixed cost absorption. But even looking at other times where volumes declined sort of mid-teens, even like you were still able to hold the margin profile relatively well.

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So I just want to unpack whether there's additional sort of mix headwinds or areas of business where you may have seen additional challenges beyond just the inventory position.

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

As we think about ultimately the discretionary end markets. What we said is we're roughly 50% exposed to discretionaries today. Previously, that was 60%. So discretionary end markets to us equal, higher corporate average margin and margin profiles. You've also seen what I'll call it, the impact here currently of decremental margins.

I'll remind you, it's equally as good on the way up. And if it's also incremental margins that have the positive mix, it's EBITDA. We've invested through the, I'll call it, the extended downturn and trade war to have the right asset position. So I view it as we're coming out as a position of strength to one, we can get back to normalized EBITDAs with the assets that we had pre plus we've made investments that give us upside as demand recovers in both discretionary as well as with the circular solution and our methanolysis facility. So we can do that and invest in lower CapEx in 2026.

So this year, we're going to wrap up around $550 million in CapEx. You can think about us starting the year at a $400 million run rate. That gives us additional operating and free cash flow should this be a stable environment or should there be some restocking. Obviously, as we outlined on the call, we're doing and focused on the controllables which means if it's a stable market, we have upside that we've created and can return that cash that Eastman has for our shareholders.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Got it. That's helpful. And maybe just on one of those discretionary end markets. I think there's been different -- there's been different views on what auto builds do next year. There's obviously some regions doing better than others.

So I'm curious to know how you're thinking about sort of Eastman's exposure to that auto production environment as well as how the sort of premium subsegment has performed within that as well.

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

Great question. I would say, I don't know that we have a unique perspective. Obviously, we follow the consultants as well. I would say we've got a footprint around the world. So for those that don't follow Eastman as closely, roughly about one-third of our transportation is in the Americas, one-third in Europe, one-third in Asia and we actually have assets that are in each of the regions.

I would say that we're more leveraged to the higher end. And as you would expect, we produce specialty products that enable brands to have multifunctional uses. So as you think about cars today, they have more glass. More glass means more interlayers for Eastman. And with higher technology acoustic, as an example, you want your cars to respond quickly and appropriately when you're giving voice command.

Also with more glass, you need more solar. And it's also more the energy footprint as you think about heating and cooling. So we have solar rejection. Also on top of that, we can add color and other applications in addition to heads-up display in your front windscreen, one of two or three in the world that can produce all of that functionality.

So obviously, naturally, that's in the higher premium, but that is starting to look at itself into the mid-tier as there's more application and as people look for increasing the standards of their cars. That's an example of how we can also win in flat to declining markets they've had over the last several years within our Advanced Materials segment.

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Now on the other side, in the performance films space, that's been impacted by affordability of cars, right? So as we think about people financing that into the car or buying it aftermarket, we've seen some impact here in the back half of the year as the prices of cars seem to continue to rise and that additional option has been impacted.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Got it. And maybe just in terms of overall, whether it's housing affordability or auto payments, like we're obviously waiting to see on Fed rate cuts this morning. And so just wondering how you would frame potential cyclical recovery to volumes. If that moves fast enough across any of your businesses and sort of any impact from that environment?

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

Well, it's -- I'll use the auto example first and maybe built move to B& C right? The car parc is approaching 15 years. At this point, in many cases, if we can get interest rates to go down, the price of maintaining, upkeeping an older car with more mileage at the right rates, if you can get them low enough then the breakeven point starts to actually be within vision or that point that someone would be convicted to make the purchase. So that's one positive in my view, as you think about positive and more auto sales.

On the B& C front, our exposure is much more leveraged to existing homes resales. It's a much bigger size to the market. People paint their houses when they put it up for sale, others repaint it when they buy it. That's in the coatings space. And so as you think about on that front and affordability, if rates are key. We rather talk about rates than 50-year mortgages, right? So -- but ultimately what unleashes -- the demand we'll see what plays on that.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Yeah. That's good. And maybe just like anything on the durable side whether and I'm sure we'll get into sort of the recycled content a little bit later, but just how do you see durables responding like -- how much of that is what do you want to call it, existing home sales adjacent, whether it's large appliances or other sort of large discretionary items?

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

For us, I think it's more the existing home sales but also you do get it with new builds. I mean both ways people want to upgrade what they have to bring something new or rushing the kitchen, et cetera. For us, it's less about large appliances. You can think about your blenders, your Ninjas, your Cuisinarts, et cetera are either on your countertops or ultimately in the kitchen area.

So as we think about that, also, as you think about with affordability, when that stabilizes or is under control, that then opens up that aperture for more purchases that people are willing to make within those spaces. What we've seen right now, people are even -- it's difficult to introduce a new brand i.e., that's what is, in some cases, slowed down in the durable space, us bringing renewable products to the shelves.

At the same time, we've got headwinds there. We're actually seeing the acceleration in the packaging space of where mechanical recycling is not meeting the fitness for use criteria, and that's being accelerated, and we have demand in '26, that will be growth on top of our 2025 business. So if we can get that on top of unlocking at some level of demand growth above '25, that would be upside to what we've been talking about in our base scenarios.

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Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Understood. And then maybe just on A&FP. I think just you have two-thirds of your end markets there relatively stable year where performance has held up pretty well. Price costs were working according to plan. I mean, can you help us get a sense of if there's some natural normalization in those earnings levels into 2026. And where are you seeing that sort of core stability holding up into the '26 outlook?

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

Yes. So as I think about AFP, it's a combination of stable markets to highlight two-thirds of personal care, cosmetics. Also as we think about Ag, we provide solutions that have cost pass-through contracts that give us that stable margin over time. And we deliver it within the regions that our customers located to their plants in a safe manner because some of the amines products do not transit well, which is also a great business and a great business model.

That, on top of our coatings business, which is we provide high functionality in our products there, whether it's in auto aftermarket or as we think about the B&C, we're actually, in my belief, exposed to more upside in the future versus there's a normalization. Honestly, it's also all the actions that we're taking that are controllable of how do we continue to deliver these business models high customer satisfaction and engagement in a manner that's even more cost effective than we have in the past.

We're on track for -- at the company level for $75 million of lower cost structure this year. That's net of inflation. And we've been enacting here in the back half of the year, another $100 million that we think will net fall on the bottom line in '26. AFP will actually benefit from that as well. I actually see it as -- it's a great business structure and model. We're leveraged to B& C existing home and new builds on top of getting cost actions and savings to the bottom line there in '26.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

And then maybe just in fibers, just understanding there's been some prepositioned inventories in Europe and China to mitigate tariff impacts. And then there were some pretty healthy destocking on the back of that.

How can we get confidence that your core volumes there are in that sort of low single-digit secular decline range on a go-forward basis and that we may not just see further industry capacity share shifts from there?

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

Yeah. I mean, sitting here today, we're probably 80% contracted with our multiyears and as well as what we've negotiated to date for 2026. So as I think about that and we think about the types of volume bands that we have. What we see today is the volume in the acetate tow business should be relatively stable year-over-year at those ban levels.

Also, as we think about the impact that we've had this year on an earnings basis, roughly 40% of that has been because of our textiles business, the tariffs as well as our broader stream utilization across all the businesses. So we're already gaining momentum on winning business outside of China as customers move and as we compete in different markets. So that should be a tailwind we can go into next year.

Additionally, obviously, it took a while to, I'll call it, streamline how we manage supply chain means and as we think about some of the direct costs that we had in fibers, that will be a tailwind as we can do that more efficiently now that we've got that structured. Along with the other utilization benefit that orders will pick that up as well.

If you've got positive momentum there, you've got stable in acetate tow, and you're going to get the Fibers portions of our cost actions. That's why we believe our base case is that this will be somewhat stable with 2025 as we progress as a base case.

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Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

And maybe just a follow-up on the textiles. It seemed like a lot of the tariff impact was here this year, but maybe just comment on how sort of underlying demand environment is as well as adoption for some of your more innovative Naia product as well?

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

Well, what I would say is, obviously, the supply chain has been a distracting factor to the progress on the Naia growth. But again, that's how we're winning in the new market. So that's also compelling and exciting that we're seeing that momentum. As I think about how we're winning, the circular and the aspects of that is a positive appeal and that's why we were gaining the momentum. So to me, as long as we can get back into stabilization of the supply chain.

There are pathways that can efficiently move materials also from going into China and back out of China from a duty standpoint, that can also take advantage of there. So both innovation, now we're getting to more normalized supply chains. I think we will get back to growth trajectory, albeit at the lower point. So it may take a year or two to recover fully what we're seeing and seen as an impact in '25.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Got it. And maybe just closing the loop on the businesses with CI. I mean, curious what you -- how you see the next few years in terms of earnings power for the base business there. Propylene chain has been underwhelming to say the least. I think what do you need to see for spreads to improve, start to move towards mid-cycle and you have a lot of self-help on the table, but is there more you need to do in terms of asset rationalization or decisive actions there?

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

Yeah, to me, one, obviously, we've looked at our CI business, it was a strong cash flow generator as we were building the Kingsport methanolysis facility. Two, we've passed in the past looked at it from a strategic option standpoint. And what we continue to believe it still is. We need to take the appropriate action. We always have the highest and best owner mindset.

That being said, we also aren't sitting still. We are making modest investments in the CI business to actually ensure across any margin environment that we raised the floor, and we see $50 million to $100 million type of investment that we can make to take our excess ethylene and convert into propylene and we're doing that and moving that project forward now. So we're positioning it both strategically and in the near term for the best outcome for our customers and our shareholders.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Got it. And maybe just pivoting to recycled content and methanolysis facility. How should we think about this 30% that you've announced starting to move a bit into the packaging side of the space? Like -- and I guess is it possible to service the Pepsi contract you have at Kingsport alone through these further debottlenecks?

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

Well, the first thing is the plant is running extremely well with every turnaround with every, I'll call it, set of improvements that we make based on our learnings. We're more and more confident that we're going to achieve the 130%, and it could lead to even future further improvements. The optionality that gives us right now and with the plan that we had already made to convert some of the polymer assets, it gives us the ability to ramp up the specialty side, at the same time, prove the circular solution.

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Obviously, with the Longview project being put on pause, we're still working with the DOE on that. We even modestly received some more cash here in Q4. We're not done yet, but we're not -- we don't have a time horizon. That will allow us -- to me, we're in a great position because now we can improve both models and then with the capital pause generate the return and the business model that then gives the confidence in Project two, three and beyond. And we're doing that, obviously, in a tough macro environment.

Ultimately, this will be the investment cases for all of us. And we're looking to make that investment case become a reality, but we're doing it in a capital-efficient manner and while we're still filling up those options. That's what you need to understand is the business model will be sound. The capital velocity will be sound and that we're balancing shareholder returns with that long-term outlook in mind.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

I mean it sounds like there's -- I imagine you're a little limited in talking about the options for the second one, but it sounds like there's a little bit of a naturally longer time line just based on the state of the consumer right now, uncertainty with the funding environment at this point.

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

Absolutely, right? I mean the goal is to need the second plant to fulfill our partner contracts and beyond. It's not just, I'll call it, a fulfill one project. That was never the vision. And ultimately, the pause gives us time to do that and ensure economic returns and ensure the business model.

In one case, we're getting positive momentum. And this is due to the mechanical recycling can't fully serve the model. You need circular recycling at a molecular level to get the same attributes. They're seeing it as they be, I'll call it, the molds on the shop floor. They're seeing it as it affects their brand on shelves across many of our packaging partners.

And in some cases, it just can't be used as a fully mechanical to meet also the fitness for use criteria. So our solution can be brought and blended. It can be brought as the full solution. And what I see is that it lets us do these low capital options as we think about those models, there's polymer assets available in the world. And as we think about combining our technology with that, we will look for the right business model to drive shareholder returns.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

And maybe just given the ongoing consumer weakness, like can you give us some color on appetite levels for Tritan Renew, to whether maybe as well as some of the packaging applications into next year? I think obvious pushback has been the lower retail sales volumes, consumer weakness, plenty of uncertainty heading into next year.

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

What I would say is, I mean, the example is we are not losing customers, right? Substantially all of our customers are still with us. It's just at the velocity that they're introducing new products or they're growing their footprint on the shelf. So to me, that's a testament to the quality, the value that they see in differentiating their brand on the shelf and how we can deliver that solution.

So this is, in my belief, is more about the consumer demand, the discretionary segment. But we're also looking at how do we grow into new end markets. And it's easier to introduce it in a new product in many cases than it is an existing product that's being branded as an example.

But we're staying close to our customers. We're investing in those partnerships to make sure that we're ready when they're ready. And we want to hit those windows in 2026. And the positive that we see is that's incremental growth at '26 in the core markets with Tritan and

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durables on top of the packaging. And any upside, again, we're not going to build that in, and we'll talk more about our base case in January as well for '26.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Got it. And maybe just a follow-up there on the packaging side. Beyond what the macro side, it's generally somewhat more resilient. But in terms of -- you've had one large customer partner go private, does that change the sort of innovation question for them in any way? Has that changed the conversations there with some of your packaging or even perhaps some of your other customers?

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

I'm not going to comment on specifics. I mean, ultimately, the choice of going private is finding the best solution to do business is my view. And if that enables ultimately, the path of the strategy to be accelerated, I believe as we partner with brands across the spectrum, we look to do business and make their strategy and their model successful.

As you would expect in this environment, I'm sure lots of people are looking at whether it's private or what strategic partnerships are required to be successful to have the most efficient because we all know consumers are stressed right now when it comes to affordability. And I think innovation, though, is critical to our sector because fundamentally basic products are not going to be as highly valued and others can produce them over time.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Got it. And maybe just coming back to CapEx expectations, free cash flow, how that's shaping up for 2026. So I was hoping you could give us some directional puts and takes on operating cash flow, working capital expectations as we frame 2026.

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

Yeah. I think building off of what we said on the conference call for Q3. And we talked about end markets being stable and our discretionaries. And as we think about maybe some modest growth for the stable end markets. Obviously, that with the self-help of $100 million, and I'll just stop there. On the cash,

To me, that's a flat to growing cash flow. As you think about before bringing in taxes and everything else. So with that basis, you can think about the dividend is a little bit less than $400 million. So let's use $400 million. And we're starting out at a CapEx of $400 million.

So to me, if we're building at $1 billion or flat to building, and then we have $200 million. We're not going to let cash sit, we're going to put that to use. And I think that's the base that we're going to build off of as we think about where are we right now and building for our January call.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

And I mean, just for -- it doesn't seem like this is 2026 or perhaps in 2027, but is the expectation that CapEx comes back to a more $700 million, $800 million range if you decide to go forward with a second facility methanolysis?

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

Yeah. What I would say is let's start with where we are, right? So we've taken our CapEx and adjusted by over $200 million this year. We're down to $150 million now. That was also on expectations of building a large circular plant that had integrated with the thermal batteries. It had energy solutions from a solar standpoint and utilities beyond.

So right, that was a pretty expanded scope, and that was in a partnership. As we think about CapEx, we expect the capital to be at or below the net DOE, right? We're going to reduce the scope. We're going to change the time horizon. So as I think about it as base capital for us will be $350 million, right?

In a recession, can we take it lower? Absolutely, but $350 million is the base. And so if we're starting at $400 million run rate, let's say, the range is $400 million to $500 million for now for this discussion. We're going to have capital and bandwidth.

My view is when we prove out the first, we'll talk about what the capital is in the future, but we can be over the next couple of years, I would say, in the $400 million to $500 million range.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

And then maybe just wrapping up with some of your cost reduction efforts, $75 million on track for 2025, another $100 million in 2026. You talked about that briefly. But can you just walk through some of these actions, which segments it may be more concentrated in as well?

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

I think earlier in the year, you saw us optimize some of our films product lines as we serve and optimize each asset in each region to serve the regions appropriately. Additionally, as we've gone through the year, we've continued to let attrition run ahead. The numbers that we gave to you was almost 7 -- right at 7% head count reduction from the beginning to the end of the year, and that's accelerated in the back half.

So as we think about the momentum which we're entering the year, much of those actions are behind us, and we'll just continue to let that momentum run ahead. And I would say those are broad across the company, they are business specific. The asset, the product lines in Advanced Materials, those are business specific.

Additionally, we've looked at our MRO and our partnerships with both providers on maintenance, reliability. We have turned over contractors. We've gone through a transition this year that, in some cases, added costs. Next year, that will pay dividends as we've completed the transitions now and both with the contract terms and the efficiency measures and the incentives, that will result in year-over-year benefit. So from I'll call it, structural benefit plans, the headcount, the partnerships, it's across the spectrum in addition to optimizing assets.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Great. Well, that's all the time we have. So please join me in thanking Willie from Eastman.

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

Thank you. Appreciate it.

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