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PRESENTATION

Operator

Good day, everyone, and welcome to the First Quarter 2024 Eastman Conference Call. Today's conference is being recorded. This call is being broadcast live on the Eastman website, www.eastman.com.

I will now turn the call over to Mr. Greg Riddle of Eastman, Investor Relations. Please go ahead, sir.

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Okay. Thank you, Lydia, and good morning, everyone, and thank you 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, Manager, Investor Relations.

Yesterday after market close, we posted our first quarter 2024 financial release and SEC 8-K filing. Our slides and the related prepared remarks in the Investors section of our website, www.eastman.com.

Before we begin, I'll cover two items. First, during this presentation, you will hear some 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 first quarter 2024 financial results news release, during this call, in the preceding slides and prepared remarks and in our filings with the SEC, including the Form 10-K filed for full year 2023 and the Form 10-Q to be filed for first quarter of 2024.

Second, earnings reference presentation excludes certain noncore and unusual 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 first quarter 2024 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.

Lydia, please let's start with our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Vincent Andrews of Morgan Stanley.

Vincent Stephen Andrews - *Morgan Stanley, Research Division - MD*

Mark, if I could ask you on the France project, could you talk a little bit about what you think the scope of the timing delay might be? It sounds like they're still committed to going forward there, but have some issues to iron out on the customer and the cost side. So what type of timing delay are we talking about? And what's your confidence that both of those issues will be resolved?

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

Thanks for the question. Overall, we're incredibly excited about the circular platform, excited about how we're operating the first plan, proving out this technology works and have a lot of engaged customers and also excited about long view with the DOE grant and Pepsi contract that gives us a lot of confidence.

And we believe long term, the European market is going to be structurally, an extremely attractive market to serve. But there are sort of two issues we're working with that we mentioned in the prepared remarks. There's a sort of regulatory uncertainty and there's just continuing to do the work we always do in dealing with inflation and getting the CapEx number where it needs to be for a good investment. And on the CapEx, we feel good about how we can manage that. So it really comes down to customer contracts and EU policy.

And what I'd say is the European Union has been far ahead of the world on recognizing both the carbon issues in this world, the climate change and having aggressive policy of that and also recognizing that they've got a packaging waste problem like we do everywhere else and wanting to have a policy that drives the brands, suppliers, the market to sort of address that packaging waste, which also includes a lot of carbon emissions.

And so they developed a policy that is quite comprehensive, that has some reduce, reuse goals that will be -- sort of help the problem, but really focused on how do we get all of this material recycled. And it's still being finalized, but they've got aggressive targets like 25% content in beverages next year in '25 and everything being at 30%, very high local recycling rates required in Europe, EPR taxes on people who don't do it, strict definitions of what is a recyclable polymer, et cetera. And so all that, I think, is headed to be in policy and makes sense.

But there was one recent change that created some uncertainty on how the brands can achieve the recycled content targets. And there's a problem they face especially as you go from this year to next year, which is they're only recycling about 12% of PET back to bottles at the food grade level. They've got to be at 25% next year, so they will struggle to achieve that pretty significantly as well as there's some WTO issues that come up around imports. And they changed policy from requiring everything to be made from local material to allow imports to be included.

Now they put a bunch of restrictions on what imports would qualify around how it's being made from a sustainability point of view as well as all these standards. And there's still a lot of complexity and trying to understand that, but it would probably make it very difficult to import for most countries in these equivalency requirements. And it really creates a huge amount of complexity, both for the implementation of policy as well as -- and achieving the goals of high recycling rates and really issues around consumer brand equity when you're using imports, right?

Because when you bring imports into the country, you're replacing local demand for recycling, which increases incineration, which also violates the carbon emission goals of the European Union. The recyclability targets, which is your material considered recyclable requires a very high recycling rate in the European Union, which is also a problem. And then consumers don't want to be solving China's waste problem. They want to see policy driving up recycling locally to address the local problem.

So this creates some uncertainty and it really goes back to why we had the circular contracting model of we're in this business to be a service provider to the brands to solve their plastic waste problem. We're not getting back in the commodity business. So we're sticking to our guns as we've told you we would around long-term take-or-pay contracts that provide stable margins. And so we're still highly engaged with customers, still very much working with this, but this has slowed down the discussion on how to structure these contracts in this market context.

I'd also note that we are targeting a lot of applications that can't even use mechanical recycle material because of performance requirements in the package. And long term, mechanical recycling won't work anyway because it's going to degrade without chemical recycling sort of keeping it refreshed. So we're very confident in the long-term market structure. We believe this is a facility that should get built, but we've got to stick to our milestones and our requirements around getting the contracts in place like we told you we would do.

Vincent Stephen Andrews - *Morgan Stanley, Research Division - MD*

Okay. And what about on the cost side of the equation? It seems like you're still working on that as well.

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

I mean inflation, I think, has been an issue for every project out there that I've seen in our industry. The supply chain crisis has driven up the cost of everything from labor to equipment, et cetera. So all projects have had some amount of escalation to it. We have a good plan to get the capital to where it needs to be on the Longview plant, and we have developed a plan on how to get the capital down on the French plant.

But it's going to take a little more work on some of the elements of doing that. And so while we're working on getting these contracts, we're taking that extra time to continue working on reducing the CapEx. But we feel that we have a pathway to manage that issue.

Operator

Our next question comes from Aleksey Yefremov of KeyBanc.

Aleksey V. Yefremov - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

Mark, just to follow up on this, do you have any idea to what degree this delay in France could maybe help you load the Kingsport facility for specialty applications?

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

So we have a lot of different flexibility. That's the beauty of how we manage all of our polymer lines in how we optimize value. Today, we do it from Tritan to copolyesters to medical PET. And every line we have built, the ones in France as well as the Texas project, we'll have the flexibility to make both PET and specialty products. So we're always going to optimizing value and mix. That's the heart of our business model, and we're very good at doing it.

So in that sense, it doesn't really matter which project gets built first. We'll sort of optimize value between specialty and PET as we sort of build out our sort of our global position. The first plant is already very much focused on specialty applications. So we'll be driving into Tritan, into cosmetic packaging, into shrink packaging, into a variety of different applications and levering that up. And there's things we're working on to expand and extend the capacity on the first plant as we get it up and running while we sort of work on building the second and third plants.

And so whichever plant gets built first between Texas and France, we'll optimize value between PET, which we have the contract with Pepsi on and specialty to maximize value as we build out the portfolio.

Aleksey V. Yefremov - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

And on the annual guidance, a nice beat in Q1. You have a lot of details in the press release. But in general, a strong start of the year, why not raise the full year? Did anything change in the rest of the year to keep the guidance the same? Or is it more conservatism than anything else?

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

It's more of the latter. When you -- we're very proud of the beat we had in Q1 and the fact that it was volume driven, which is the key element of the challenges we had last year, frankly, the whole industry had last year, to see that volume come back better than expected, gives us confidence, especially because it came back in the specialties, which is where our highest value is generated for the portfolio. So we feel good about that.

And as you look at our guidance, clearly, we have confidence in AM and AFP, and we have confidence in Fibers doing better. CI is always a little uncertain. But the main reason we're -- didn't upgrade the range is it's the first quarter. There's a lot of macroeconomic uncertainty out there, a lot of geopolitical uncertainty that we're all living with every day.

And we wanted to really stick to our approach in January, which is this is an economy-neutral forecast, right. We're not projecting fundamentals getting better in the back half of the year to deliver this range. We're also not projecting -- underlying demand is going to get worse in the back half of the year. We're saying it's neutral. We believe fundamentals will get better into the back half, and that would be upside in our forecast. If you have concerns about geopolitics, then there's some sort of -- there's risk to the midpoint of our forecast. But at this stage, I think it's just prudent to be a little cautious until we see how things develop.

Operator

The next question comes from Duffy Fischer of Goldman Sachs.

Patrick Duffy Fischer - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Can you just give us some more details around the methanolysis plant that's been running, let's say, for a month now? I'm sure some stuff you can't. But things like what's the premium looking like? What's the breadth of feedstock that you've been able to run through? Maybe just kind of an update on how the plant's running and how you would expect it to ramp from here over the next couple of quarters?

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

Sure, Duffy. It's great to get that question because we're really excited about having this first plant up and running. This will be the world's largest chemical recycling facility, and we're really excited to show the world what's possible, not just in generating earnings and growth for our owners, but in solving a pretty significant environmental problem.

And we're really excited that we're on spec with the material and we're serving our customers. It's pretty amazing when you look at basically garbage going into the front of the plant and sort of on-spec material coming out the back end. And it is a very complicated technology and plant. So it is nontrivial to start up compared to if you're building a commodity asset.

The good news is that we have fully confirmed that the process chemistry works, which was always the biggest question that I think people had and we can confirm that's working. We've validated all the unit ops are functioning as designed. It can run continuously. So we feel really good about the sort of design and the structural aspects of the plant.

The challenge has been just on getting the plant to run reliably. And we're certainly about 4 weeks behind schedule as we mentioned in the prepared remarks on that front. And really, we're still focused on reliability. So we haven't moved into a broad feedstock slate or ramped up the capacity a lot until we've actually addressed some of these mechanical issues.

So all the issues we're facing have nothing to do with the process chemistry. It's literally mechanical issues. Some of it was in the beginning, construction errors, leaks and improperly installed equipment. We believe we've addressed most of those issues -- actually, all of those issues at this stage.

Then there's been sort of more-than-normal early failure of some pieces of equipment like instrumentation, valves and some other equipment. This is not unique to us. We see all of our peers having the same challenge globally where just equipment wasn't as made as well as we would hope in the supply chain crisis. And we're all sort of dealing with these kind of sort of annoying little issues. They're simple to solve, but they just slow you down as you have to sort of pause to address them.

And we've also had some reliability issues on rotating equipment, especially pumps. And that is a little more complicated. It's a mixture of quality -- quality of assembly, some design issues and some operating learning. We've done a total root cause analysis on that. We feel we have a very clear understanding of what's causing it, and we're very close to completing all the actions we need to address those issues.

So I'd say from a mechanical point of view, we feel very good about where we're at. The plant's running. Our priority right now is serving customers, which we're doing. And we're just in the phase of ramping up production and sort of expanding our feedstock slate to sort of try out those issues.

But the 70% of the op of the plant is a monomer called DMT and that's always clean, no matter what. So the process chemistry around sort of viewing impurity really is just about EG, which is a smaller part of the plant. So as we ramp up, test that other material, we feel very good about supplying customers this year because their demand that we're projecting is not close to capacity of this plant. And so we've got plenty of ways to keep them served and supported.

So we still forget about the $75 million of EBITDA that we've got out there as having a pathway. It's obviously a little more challenged with how we've had a slower start, but we feel good that we can achieve it for the year.

What I'd say as far as progression goes, our plan was always to do what we're doing right now is run at a steady state to make sure mechanically everything is fine, then you ramp up as well as start broadening the feedstock, which we'll be doing through this next quarter. So we'll have a lot more to tell you about that when we get to the second quarter call.

Patrick Duffy Fischer - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Great. And then in the market, it seems like there's been an inordinate number of PDH unit issues over the last couple of quarters. Maybe just bigger picture, how has that impacted your business? You obviously take a lot of propylene, make derivatives. But do you see that as a positive or a negative across your whole portfolio?

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

Well, first and foremost, the sort of propylene derivatives are predominantly going to show up in CI as far as the value goes, but there are propylene derivatives that go into AFP as well as AM. So there's parts of the propylene stream that goes across a whole integrated complex.

When the outages occur, and the price of PGP goes up, that's good for us, obviously. But it's always a question of how does PGP move relative to the price of propane that gets us to that spread. And through the first quarter, we certainly saw PGP move up, but we also saw propane prices come in much higher than expected. So those sort of netted out to some degree.

And as we go into this quarter, those spreads look like they're going to contract a bit from the first quarter with the way PGP prices have come off as outages have been resolved. So it's the nature of these olefin businesses where there's a certain amount of up and down in spreads and that's just factored into our guidance.

Operator

Our next question comes from Frank Mitsch of Fermium Research.

Frank Joseph Mitsch - *Fermium Research, LLC - President*

Mark, I do appreciate the color on what's going on in France. And I'm trying to reconcile how the consumer brand companies that are out there, they're making promises about what percent they're going to have recycled by what year. And reasonable minds believe that they're not going to hit those targets. And so here is an opportunity to get on board with recycled content with you and yet it seems like they're waiting for government subsidies or mandates or something before they sign contracts.

I mean the -- it almost seems hypocritical on their part in terms of making these statements. So it begs the question, how committed are they in terms of recycled content? And given where we are right now, how do you feel about the potential of -- if things don't work out the way that you anticipate, walking away from the France project?

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

So one, every customer we have that we're meeting with, I think, is highly committed to addressing the recycled content question and making sure that they're making their packaging with higher rates of recycled content. And frankly, many of the top brands have 100% goals on a lot of their packaging. They're way above any sort of regulatory policy that's out there. So I don't think there's any lack of commitment that they know this is important.

I do think there's a reality which is there's a significant lack of recycling infrastructure in this world and in mechanical recycling today, and I think most of the brands understand that a lot of what they do in packaging, mechanical recycling, won't even work properly. So the need for chemical recycling is absolutely necessary in the long term. There's just -- I haven't run anyone who thinks that both mechanical and chemical aren't necessary.

So demand condition is very clear. The question is how do they meet those conditions, right? And at the moment, there's been a ramp-up if you go look at the data of inwards of our PET into the U.S. and Europe that is affordable. And that's a way for them to manage cost and hit their targets in the short term.

The dilemma for that is it doesn't really solve the actual problem, which is you, as consumers, European consumers, want waste out of their environment, right? They don't want to be a solution to China's trash problem, right? So they've got to work their way through that on the economics versus what the real goal is, which is addressing local recycling.

And so as they're sort of in a situation of where our PET prices are relatively low right now and imports are available versus the long term, which regulation is certainly going to drive a requirement for higher recycling rates within the U.S., within Europe, how do they sort of make those choices and decisions?

So it's just taking us longer to work through these contracts. I'm confident in the end, these brands will focus on what is the correct thing to do for the U.S. and Europe sort of waste issues, but it's just taking us longer to negotiate the contracts than we expected.

Frank Joseph Mitsch - *Fermium Research, LLC - President*

I appreciate that. I mean it seems like a slam dunk. You guys seem to be the best game in town for them to get to that chemical recycling, which is superior to mechanical recycling and yet it's taking a little bit slower.

Just one other question. In the prepared remarks, you talked about a Patagonia partnership where you're recycling it's unusable apparel. Unusable apparel, what is that? Is that like off-spec products? And is this something that -- can you provide a little more color on that? And is this something that you're looking to expand with other consumer brands?

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

It's a great story. And Patagonia is by far the leader like Europe around recycling. Patagonia has a take back program. So it's an active program with their customers to say when you're going to -- instead of throwing your garment away, your fleece vest or whatever it is you have, drop it off at a store and we'll take it back, so it doesn't end up in landfill. So it's actually a genuine circular program to prevent textiles being thrown away.

The second largest source of plastic waste in landfills or incineration are textiles after packaging. It's a huge problem. And so they are truly forward-leaning when it comes to anything environmental way ahead of anyone else, and they really do their science on it. So they're taking back all these garments and then we're shredding them and recycling them and putting it back into fibers, in this case, Naia fibers, for some of their products. So it's a genuine circle for the textile industry.

So it's a program we certainly want to expand and do with other companies. If you think of all the fast fashion brands out there where the whole business model has been centered on buy things and then throw it away and buy new things, with the regulations that are coming in Europe around that waste, which is the next round after packaging regulation as well as the consumer pressure on waste that exists here as well, this is another great circular story.

And we can take ultimately this back into the -- our CRT to make Naia fibers or we can take the textile back into the polyester plant to make polyester fibers, chips for polyester fibers. So it gives us a lot of opportunities to work on there.

These are complicated programs. I wouldn't say that the volume is going to be particularly high anytime soon. But it is a model that has to be developed to build a future where we have waste out of the environment. And with the new technology, when you think about the Texas project, 90% lower carton footprint, almost close to a zero carbon footprint plan. And that's extremely compelling not just on the waste side, but on the decarbonization side. So we're very excited about what we can do for the marketplace.

Operator

Our next question comes from David Begleiter of Deutsche Bank.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Mark, on the Longview project, if you could reach FID in Q3, what's the time line from there for construction and start-up?

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

Yes, that would have a plant sort of coming online in the second half of 2027.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

And would the cost -- how would the cost compare to Kingsport?

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

The capital costs are different. The methanolysis unit will be much cheaper than the Kingsport plant to build because there's a lot of sort of lessons we learned as we've shared in past calls around how to sort of be more effective in building the plant, right? So we certainly don't intend to have the construction issues that we ran into, and there's a lot of learning both in the construction as well as operating the plant now that gives us much better insight on how to improve some aspects of the plant, all of which will make the plant cheaper to build.

So we feel good about that part of the plant coming in lower than Kingsport by a meaningful amount. But the difference is Kingsport had a huge amount of polyester lines and all the infrastructure for handling materials into the plant and out of the plant that we could leverage as well as energy infrastructure that was already in place here that was leverageable, we didn't have to add energy and steam infrastructure.

So when you go to the Longview plant or the France project, the methanolysis one part is cheaper, but you're adding polymer lines, you're adding -- and you have a lot of infrastructure you need to build around this facility that doesn't exist in either of those locations. So the total capital cost turns out to be higher.

Fortunately, we've got great incentives with the DOE grant, that $375 million is extremely helpful in supporting the economics of the project, offsetting inflation and paying for this add of scope that we did to the plant with this thermal battery and solar facility that allows us to get to that 90% reduced carbon footprint I mentioned.

And then the French plant, same thing. It's cornfield, so there's infrastructure you're having to add that's sort of more. And there, you've got a biomass steam plant you're building as opposed to leveraging existing energy infrastructure at the Tennessee site.

So it is a -- each project is quite different in scope in what it's building, and both projects have a lot of incentives to support it. We haven't disclosed the full amount from France, but it's an attractive amount of support as well. I mean I have to say, the French government through everything has been incredibly supportive on incentives, on permitting, helping make sure the policy makes sense in Europe as much as they can. So we really appreciate all their support and everything that they've done to enable that project.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

And Mark, if I could ask just on Fibers. And obviously, strong top line driven by Naia. I read your prepared comments. How should the top line trend in Fibers as you move through the rest of the year?

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

I think that the Fibers trend from a volume point of view is a bit less in the back half of the year than the first half. So volume and earnings will be a little bit less in the back half of the year. And it's just timing of customer orders. It's sort of normal. We've always talked about this business. The order pattern of the customers is a little bit unpredictable across the year. So it's just that.

But the textile side will continue to grow and provide earnings growth. The tow volume obviously, as I just said, will come off a bit, and the back half will be a little bit lower in the first half.

Operator

Our next question comes from Jeff Zekauskas of JPMorgan.

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

What's the depreciable life of the Kingsport methanolysis plant?

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

The depreciable life, you can just think about around 20 years for the Kingsport facility. And honestly, that would be true for each of the large circular recycling plants that we're building.

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

Great. And in terms of the volume growth in the quarter, Additives & Functional Products shrank 1%. Which of the subcategories declined in volume in the quarter? And in Advanced Materials, where you were up 4%, how would you compare what happens in Specialty Plastics to interlayers to performance films? Did they all grow? Did some of them shrink?

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

Sure, Jeff, and nice compound question. You got two segments in one. So on AFP, we were sort of net down 1%, which I'd call mostly flat. And there are meaningful moving parts on that, Jeff. Coatings and care chemicals actually had very good growth sequentially into the first quarter. And then we had much lower specialty fluid bills and heat transfer fluids. And those two sort of offset each other.

Ag was its own unique dynamic, right? So year-over-year, there's still destocking relative to last year, so demand's down. But we did see more-than-expected sequential improvement in ag demand from Q4 to Q1, which was just less -- it turns out they didn't need to destock as much as they thought. They had confidence about the ag season this year. So in North America, I would say, destocking is over.

There is still some residual destocking, competitive dynamics for our customers, not us, but for our customers, going on in Latin America. So there's still some of that destocking to come to an end in the future. But the vast majority of our business is focused on North America. So for us, we're feeling pretty good about the ag business and how it played out.

Regarding AM, we had a very strong recovery in the durable space. So sequentially, sort of durables were up 15% from Q4. They're up significantly relative to last year. So that was a great improvement. We saw also shrink in cosmetics sequentially grows. Shrink, up 15% and cosmetics also had a good sequential growth. So those were all good, but there's still a lot of destocking offsetting some of that growth in medical. That's still going on.

And there's a tough comp on the performance film side. Last year, we had a very strong loading of channels in China orders. And with the auto markets basically being flat globally, but down in China, the demand was not nearly as good in performance films this year as it was last year against that tough comp. And the interlayer part was sort of flattish with builds.

Operator

Our next question comes from John Roberts of Mizuho.

John Roberts

Sounds like the new Kingsport plant at the EBIT level will be modestly above breakeven in the second half. Do you still expect to get to corporate average or higher EBIT margins for that facility? And what happens with the other segment here as Kingsport moves out of other and you begin spending on Longview?

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

Thanks for the question. Just as a reminder, as we've highlighted earlier, we're on a pathway to the $75 million in incremental EBITDA. I would point out, obviously, in 2023, we had a net investment in the other and an expense of roughly about $25 million. So you can think about EBITDA growing from roughly consuming 25 to about 50 positive for the year.

As we've highlighted, it took us a little longer to start up here in Q1, and that's the reason that other ran over on the EBIT view. As we transition into the second half, we expect mostly all of the EBITDA growth to occur in the second half, and that would be primarily within Advanced Materials, and that's also why you see our confidence in the range that we provided for AM overall. As I look at it in total, basically, the EBITDA is still about 2/3 Advanced Materials, 1/3 in other for the full year.

On the margin basis question, I would say it's above segment average margins on both EBITDA and EBIT basis in Advanced Materials.

Operator

The next question comes from Kevin McCarthy of Vertical Research Partners.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

Just a follow-up on Advanced Materials. Mark, it was nice to see your quarterly results. And I guess, if I look at the annual guide, you're looking for a 40% growth rate at the midpoint versus 2023 annual EBIT for AM. So maybe just if we zoom out the lens, your last couple of years have been kind of dislocated for that business. You're now seemingly coming back and regaining traction into a better place.

What is your view of the likely growth rate? Or how do you see the puts and takes for that segment over the next couple of years? You had a few years where you did north of $500 million. Now you've got some methanolysis-related earnings flowing into the segment as was just discussed. So how do you see the glide path for AM in '25 and '26? Maybe some color there would be helpful.

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

Sure. So first of all, we're extremely happy to have Advanced Materials back on a track of sort of recovering out of an extremely bad demand environment and getting back on track to deliver very attractive growth and very attractive margins for our owners.

At the end of '22 and '23 was obviously sort of the worst demand environment we've ever seen. When you think about how demand came off and that we had over 5 quarters of destocking, along with very low demand in all the discretionary markets, whether it be B&C or durables or even destocking in great markets like medical, I mean, we clearly didn't -- every market destocked out except for auto through the entire year last year. So the volume/mix headwind -- because those were also the highest value markets, was pretty significant.

So getting volume back, which is just destocking this year. Remember, we're not guessing any improvement in this forecast for end market growth in the discretionary markets. We're going to, as we've guided, start recovering earnings in a pretty substantial way versus last year.

So as you look forward into '25 and '26, we believe we'll certainly get back above where we were in 2021 and continue to grow from that, right? So we don't have any market growth yet in this outlook for this year. So that's upside as the markets stabilize and recover. You've got just getting started on the Kingsport methanolysis plant where the asset utilization is quite low and the volumes are not that high this year. So you've got the fill-out of that plant creating a lot of value so that you can take that $75 million to $150 million of EBITDA and that still has additional upside from there, but that's just in '25.

We've got wins going on in our traditional innovation model in other parts of Specialty Plastics that's creating growth. We've got circular economy driven growth in eyewear with our renew recycled loop for all the eyewear companies. And you've got automotive continuing to deliver innovative growth above market. They'll do that this year, and they'll keep doing that as we go forward.

So you've got all these different sources of volume growth that help get back above 2021 and keep going. You've got asset utilization tailwinds that will come with us, especially in the methanolysis plant, which is a pretty large chunk of new costs into this year relative to last year and then leveraging that.

I would say, on the spread side, I would assume things to be relatively neutral. So we got our margins to an attractive level to support investment in this business from some of the challenges that we had as we caught up to inflation. And prices will probably come off a bit over time in line with how raw material and energy costs are coming off a bit.

So I would say, as you think about the modeling, I wouldn't assume an expansion or contraction in spreads. I would assume that we've got attractive margins now and you're leveraging all that volume against those margins to create a pretty attractive earnings growth.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

And then just as a brief follow-up, I think your commentary cited some new application wins in Advanced Materials. What are those? And do you see yourself as gaining share relative to competitors' broader market growth rates?

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

Yes. The model of this business has always been growing above end markets because you're winning in applications relative to some other material, right? And that's been true for Tritan forever as well as our copolyesters. So I'll just give you a couple of examples. One, we're growing a lot in hydration bottles in China. It wasn't a market for us. They're using Tritan, and we're seeing growth in those kind of products.

We're seeing -- getting into a broader set of applications with Black & Decker on their tools. Their first launch with Tritan was really successful and now they're expanding into a broader set of tools. We have a new product for shrink packaging that's patented. That is a recycled code 1 product, so it's fully recyclable where the historical products were not. So that's gaining a lot of traction for us both in volume and margin as we just win with a more recyclable product. Obviously, recycled content would add more value to it.

So there's always these wins we have in all kinds of places in the portfolio that sort of has allowed us to deliver attractive growth. And as much as we're very excited about methanolysis, and that is a huge prior of capital deployment and innovation effort, we wanted to remind investors that our core model is still active and winning business every day, and we're adding methanolysis on top of that.

Operator

The next question comes from Patrick Cunningham of Citi.

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

You seem to be fairly confident that we're reconnecting the primary demand levels here. Did you get the sense that any of the volume improvement in the first quarter came from maybe some modest restocking? I know I have heard the potential that, that's happening on -- from paints and coatings producers or maybe there's people building safety stocks ahead of geopolitical disruption. So I'm just wondering if you've seen any of that in the first quarter and the expectations into 2Q?

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

I'd say on the margin, there's probably a bit of restocking that's occurring. I mean it's almost impossible to really know the answer to that question. When you get into destocking or restocking, your customers are not exactly that clear on what's going on. But I can definitely point to a few examples where Red Sea logistics concerns would cause some -- has caused some customers to buy ahead of that risk in a few places, as an example.

But at this stage, I think it's really hard to call lack of destocking, a little bit of restocking or maybe even a little bit of market growth. I mean there's just no way to know precisely what that is. But I can tell you, it's not a material driver of our earnings at this stage based on what we know from the customers. We're not seeing large orders come in where people are restocking in some sort of noticeable way.

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

Got it. That's helpful. And then just on the expanded scope for the Longview facility, is the funding you're receiving there from the DOE simply just offsetting that expanded scope? And how should we think about economic returns given this expanded scoping? And would you expect additional premiums? Or maybe are we reliant on some price for carbon abatement in the future?

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

Patrick, thanks for the question. The DOE program, as it's designed, basically provides a series of cash payments based on what we negotiate there that basically is providing an investment offset to the CapEx as we move along. So yes, the way I look at it is a direct offset to the capital. Basically, it will be progress payments across the almost 3 years of construction. So you've got that matching. And it's up to $375 million, as we've talked about.

We're currently negotiating those exact terms of the award, but we're targeting to have a lot of sight to that over the next 3 to 6 months. And it is definitely an offset to the additional -- as we talk about thermal batteries, as we think about the green energy source that this will offset that as well as the additional inflation on that. So it's back to -- and we're confident that we'll have greater than 12% returns on the project.

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

I think it's too early to tell on the sort of premiums associated with decarbonization. It's very clear, people are willing to pay premiums for recycled content. It has very -- like product safety, plastic waste in the environment is a very emotional issue for consumers, and they're really, really not happy about it. And so they're not happy with the brands about it, and they're putting pressure on their politicians to address it.

Carbon is still not exactly clear what premiums people are going to get for just decarbonization. So I think there's upside as -- as it becomes a cost to carbon as policies start getting implemented on that front, but we're not assuming any premiums associated with the carbon side of things in our core economics. But we are going to -- we are, as we go forward with this project now that it's very compelling, see what the value is with consumers on that front -- I mean, with the brands.

Operator

The next question comes from Josh Spector of UBS.

Joshua David Spector - *UBS Investment Bank, Research Division - Equity Research Associate - Chemicals*

I had two questions I wanted to ask on volumes. So on my math, when I look at the first quarter, volumes versus 2019, it was -- it appears to be your easiest comp. You were up 3% year-on-year. So the first piece is, how do you think the year-on-year comps on volumes progressed through the year? Do you do better or worse on where that comp is versus the 2019 baseline?

And related to that, I guess, there's a lot of choppiness in some of the numbers. Where would you say your core volumes are in your plans for the year versus 2019? Thinking about that in terms of what's the benefit if you see a stronger demand improvement or a full reconnection versus just improvement?

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

Sure. So I think it's easiest to sort of separate our revenue portfolio between what are stable end markets and what are sort of discretionary end markets. The stable end markets have consistently sort of grown through 2019 to now at very modest rates, call it, 2% to 3%, whether it's medical, personal care, et cetera, those kind of markets.

But there was a dislocation that even in those markets, there was destocking last year that played out, depending on the market 1, 2, 3 quarters to sort of finish their destocking in those markets. And then they've reconnected back to sort of demand and are growing again, which is true for this year, medical being sort of the worst, ag and medical being the most stable markets that had the biggest destocking because of fears of not having inventory in '21 and '22.

On the discretionary markets, as everyone knows by looking at housing data or automotive build data, well, harder to see it but appliances, electronics, et cetera, same story. Demand is, relative to 2019, not great. We're at a 28-year low in existing home sales in the United States. B&C construction in China is off dramatically, still -- and also a lot in Europe. So B&C prior demand is extremely challenged.

When you think about the materials world, existing home sales to something -- to Eastman is more important than new homes, because of all the appliances, electronics, more painting, et cetera. So that market is very challenged. It will come back. It's obviously, I don't think coming back this year, but that's upside to getting back to what is normal from where we are now and then growing from there. So there's a pretty big gap there relative to '19.

When it comes to auto, same thing, there's a huge backlog of increasingly older cars that need to be replaced around the world. And first is semiconductors limiting the ability for consumers to buy cars, then interest rates now slowing down the rate of buying cars, but the demand for that will certainly recover and be a significant amount of upside for us. Same thing with durables, big shift to service lifestyle post COVID. At some point, people rebalance back to some blend of buying material, discretionary items and seeing Taylor Swift.

So I think that all those are still well below sort of '19 levels in one form or fashion relative to where they should be. So as you look at this year, and the way our guidance is built, all we have is a lack of destocking, some innovation-driven growth, starting to deliver real value out of methanolysis, stable markets being okay.

And all that recovery that I just described is upside to '25 and '26. I'm not about to tell you which year it's going to happen, but there's certainly a lot of upside in places that are most challenged are also our highest value markets from a margin per unit basis. So as those markets went down, it was a significant headwind. As those markets come back, it's going to be a significant tailwind.

Joshua David Spector - *UBS Investment Bank, Research Division - Equity Research Associate - Chemicals*

I appreciate that. I guess if I try to wrap that all together, I mean, I struggle with if your volumes for 2019 versus 2018, are you flat? Are you down high single digits just considering the two offtakes? Is there a way to quantify that at all?

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

I don't have that answer for you and that -- at a sort of integrated company basis. We look at everything on a market-by-market basis. And so what I told you is sort of how to view it. Half the revenue is very stable and growing. Half the revenue has a huge amount of upside at very high value. And I'm not going to try and quantify that on a weighted average basis.

Operator

Our next question comes from Laurence Alexander of Jefferies.

Laurence Alexander - *Jefferies LLC, Research Division - VP & Equity Research Analyst*

Given the feedback you're hearing from customers around the recycling plans now that you've started one off and you have -- you're making progress on the next two. And also kind of that consumers increasingly see that alternatives are available, is that changing the way you think about you're managing the balance sheet and the cadence of projects over, say, the next 5, 7 years?

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

I don't think so. I just want to make sure I understand the question correctly before I try and answer it. We have three -- we have -- the normal core business that has maintenance, right? So there's always CapEx around that, call that in the $350 million range. And then there's always specialty investments we're making in growing our capacity to serve all the different specialty markets we have, which has always been part of our core model, and that takes you to -- with maintenance, $500 million to $600 million range on CapEx.

When you go beyond that, then you're starting to make choices around how much am I doing in share repurchase versus how I'm deploying capital to the circular economy. Obviously, we've got one plant behind us at this stage. So there's a question of when you build France and Texas, how do you stagger them? Are they going to be right on top of each other? And how the CapEx for those two programs, net of incentives sort of add together.

And we believe we have a balance sheet and a cash flow in place to fund all that. So we don't have to take on debt to do it, just to answer that question. And how we're going to -- I mean, by just nature, I think, as opposed to intention, these projects will end up staggered one way or another. It would be extremely unusual if they both start at the same time just based on getting permits and contracts and everything else. So they'll be staggered to some degree. That's all factored into our analysis about how we work through '25 and '26.

I don't know if you want to add to that, Willie?

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

Yes. So what I would just say is we're confident that we can keep a strong investment grade balance sheet through that. You're seeing that as we updated our guidance on capital this year of being $700 million to $750 million, and expecting share repurchases of $200 million to $300 million.

And as Mark has outlined, we've always been agile between our growth investments and then using any excess cash for bolt-ons, and then returning cash to shareholders. We will continue to be disciplined in that capital allocation, and we expect to generate the cash flow to fund our strategy.

Operator

Our next question comes from Mike Sison of Wells Fargo.

Michael Joseph Sison - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Analyst*

Nice start to the year. Mark, when you think about maybe a '26, '27 sort of longer-term earnings potentially, your methanolysis facility in the U.S. is ramping up well, it sounds like. And if you add that -- the potential scale up there plus potential volume, is there sort of an EBITDA potential you think you can get back to or get above? I think you peaked about $2.2 billion in '21. Just framing up what the earnings potential is if volume does recover in the next several years.

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

Mike, let me start with last year, we had $1.6 billion of EBITDA. This year, our guidance is at $1.8 billion. And what I would say, as we've talked about normalized, that's going to be north of $2 billion. As we think about adding $150 million to $200 million for the Kingsport plant, that puts us in that $2.4 billion range.

And then there's upside as we think about adding the Longview project and the France project on top of that. But we're obviously highly focused right now on delivering the growth in Advanced Materials and Additives & Functional Products with the investments we've done to date. As Mark just highlighted, from an end market, ultimately, we're leveraged to a recovery in the economy now that the destocking is substantially behind us. And that's what we're focused on delivering.

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

If you do look at it on a historical comp basis, it's more compelling because we sold off $175 million of EBITDA in adhesives and tires and used the proceeds of that to reduce share count, basically neutralizing what we sold off in the EBITDA. So when you get to an EPS level, the leverage of that EBITDA number that Willie just told you is much more significant on the EPS and stock price basis.

Operator

Our next question comes from Arun Viswanathan of RBC.

Arun Shankar Viswanathan - *RBC Capital Markets, Research Division - Senior Equity Analyst*

I had a similar question to Mike here. So if you think about your bridge to EPS, it looks like you're on the path to do about $3.60 or so in the first half and that would imply about to $4 to $4.40 for the second half, depending on where you land in the range, the midpoint to the upper end. And so that $4 to $4.40, maybe if you annualize that for next year, that's $8 to $8.80, which would kind of fall in line with your maybe 10% EPS growth targets, or 8% to 12%.

Is that how you guys are thinking about kind of progress from here? And if that is the case, would that be mainly kind of volume recovery and maybe some methanolysis? Or how are we thinking -- you guys are feeling about kind of where you are in the evolution here with the returns and primary demand and some volume growth? Do you see that target of 8% to 12% EPS growth back in view?

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

Yes. I think you framed it well, and I think it fits into the end market lens and the leverage to the volume growth that we've seen since 2019, which is it's basically been roughly flat to slightly negative since that timeline at the corporate level and the volume/mix line.

With the combination of Advanced Materials and the leverage, we talked about how that volume/mix drops to the bottom line with the fixed cost structure that we've had in combination with the growth. In the back half of this year, we see that leverage for the application growth as well as the back half EBITDA growth for the methanolysis facility.

When we look into growth in 2025, we've talked about another $75 million of EBITDA growth from methanolysis and the application wins that we'll have there as well as we're at solidifying our contract structure on Fibers. So you can consider that stable in this period. And we will have growth as ag recovers, as building and construction recovers and AFP. And I would say we're at sort of trough levels in the intermediate space. So 10% growth at the midpoint is reasonable as we go forward.

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

I'd just add, AFP also has growth. We're an exceptionally low level of heat transfer fluid fills this year. We have a clear order book to that $30 million drop from '23 to '24 to recover that as we go into '25, not to mention B&C having any kind of market recovery would be upside. So there's upside in AFP, there's a lot of upside in AM, stability in Fibers, CI's at the bottom of the market. So at some point, start coming off of that and recovering from a spread point of view. So there's multiple ways you sort of combine that together to get to growth next year versus this year.

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Let's make the next question the last one, please.

Operator

So our final question comes from Salvator Tiano of Bank of America.

Salvator Tiano - *BofA Securities, Research Division - Analyst*

So firstly, I wanted to ask a little bit about the France project and setting aside CapEx and regulations. How do you see the OpEx there? And especially because I think a couple of months ago, you signed an agreement with a recycling company to import PET waste from -- as far away as Italy and Spain, which obviously, it would mean pretty high feedstock costs. So does this mean that there could be -- that the France project may have elevated OpEx because of that, firstly?

And secondly, why so far -- you haven't signed agreements with -- for more domestic supply because of things that -- in Europe with our single-stream PET recycling, it will be the ideal location. And again, you still have to go as far as France and Italy to get feedstock.

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

So this is a large-scale project and aggregating feedstock from a wider range than just France, given the state of the current infrastructure in Europe for collection and sortation is the appropriate thing to do, right? France is a huge opportunity to improve in collections and sortation. It's part of why they want to really support this project.

Currently, we have about 70% of our feedstock under contract, which is a mixture of France, Germany, at least Spain, as you noted. The logistics costs were always factored into our economics for this approach to the marketplace, so that's all built in. But the last 30% is not signed because we want to work with the French government and the local municipalities across France to sort of get that feedstock closer in as they develop that infrastructure.

So that's sort of where we want to go. That's why we're not signing up for any more from other places, because we're focusing on how to get more out of France for that last remainder. But that's all built in, and the actual logistics cost per kg is not significant in the economics for this plant.

Salvator Tiano - *BofA Securities, Research Division - Analyst*

Okay. Perfect. Then the other thing I want to clarify is about what do we expect for this year, Fibers volumes, because Q1 was down 7% sequentially. You talked about Q2 being similar to Q1 and then another step down in second half. So that pretty much seems to imply a very big annual decline, which I don't think is what we were expecting.

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

On the volume, what I would say is -- there's only -- we've talked about Naia growing, and we expect that to grow on the -- as the date front, we would expect, I'll call it, flat to modestly down, but we also provide intermediates and flake, and we would expect that's where some of the volume would be declining.

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

On a full year basis, it gets a little complicated when you're doing -- looking at sequential and year-over-year numbers for this. The volume is relatively flat to last year when you look at it on a full year basis.

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Okay. Thank you, everyone, for joining us today. I really hope you have a great day and a great weekend. Thank you.

Operator

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