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EMN.N - Q1 2026 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 first quarter 2026 Eastman conference call. Today's conference is being recorded. This call is being broadcast live on the Eastman website, at www.eastman.com.

I 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*

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, Senior Manager, Corporate Analysis and Investor Relations.

Yesterday after market closed, we posted our first quarter 2026 financial results news release and SEC 8-K filing. Our slides and the related prepared remarks in the Investors section of our website, eastman.com. Before we begin, I'll cover 2 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 first quarter 2026 financial 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-Q to be filed for first quarter 2026 and the Form 10-K filed for full year 2025.

Second, earnings referenced in this presentation exclude 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 2026 financial results news release.

As we posted the slides and the accompanying prepared remarks on our website last night, we will now go straight into questions. Becky, please let's start with our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Vincent Andrews, Morgan Stanley.

Vincent Andrews - Morgan Stanley - Analyst

Thank you, and good morning. Mark, I'm wondering in methanolysis, given what's going on, the run-up in crude oil prices and virgin plastic prices running beyond that, if in methanolysis, this is providing an opportunity for more customer trial or adaptation, whether it's in the US, potentially some export opportunities because I seem to remember over the last year or so, we've been talking about customers not wanting to spend or try things that are different, but it would seem to me now your product probably offers some significant relative value beyond just its recycled nature. So if you could comment on that, that would be really interesting.

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

Good morning, Vincent. So we certainly are very excited about the strength of revenue growth or associated with the Renew platform around methanolysis, both on the specialty side as well as the rPET side. We need to keep in mind that the end markets here, even though there's a lot of stress in the marketplace right now with Middle East conflict.

The end market demand situation hasn't really changed dramatically. Consumer discretionary on durables is still relatively challenged or cosmetics, et cetera. So we're not seeing an uptick in any market demand in this context. And the customers are still fortunately very focused on the value of Renew content and interested in buying it.

So on the specialty side, I don't think anything has really changed. We are getting a bunch of wins. We're seeing a great build in specialty customers. You saw some of that volume growth happen in Q1. It will continue into Q2 and into the back end of the year. And it's happening with Tritan sales and cosmetic packaging, where we're seeing the most adoption.

On the rPET side, I think there is more of a question around just relative value of our rPET relative to the where virgin PET prices are going with the increase in oil. And certainly, that improves the price position of our material relative to those materials that are going up in a considerable way. And so we see strong demand there.

But obviously, the demand was strong before oil went up, and we're running our capacity to serve that. And so that 4% to 5% revenue growth that we've talked about in January, we still think that's probably accurate. There may be some upside. The real upside, I think, sits relative to the underlying market sits more in the Middle East related issue than it is just on the new value proposition across the portfolio, but in particular, specialty plastics since we're talking about Advanced Materials right now, has some upside there.

As our competitors in Asia, principally are facing a much higher oil costs, much higher natural gas cost they're having to raise prices like we are aggressively in this context. But they're also facing security supply issues. There are shortages out there that's driving all this price increase. So there's -- people are going to start running into the inability to actually make product polymers, whether it's direct competition

or indirect polymer competition. So we're just seeing signs of it, but we expect to see more potential volume upside driven by that operational constraint that's going to be occurring in Asia in particular.

So there's a combination of renewed growth for sure. What's impressive in this entire environment is even with the challenges that our customers are facing economically, we're still building, they're still paying premiums for these products, which is a really impressive test of the value proposition.

Operator

Patrick Cunningham, Citigroup.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Hi, good morning. Thanks for taking my question. Sort of a related question just on the volume upside as being a reliable supplier here. Have you seen tangible market share gains, particularly in CI at this point? I know you kind of touched on this, but how would you sort of handicap the potential for share upside in other parts of the specialty business as a result of the conflict?

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

Yeah. So it's a great question, and we're certainly paying a lot of attention to this issue, as I just mentioned. So on the Chemical Intermediates side, certainly, we can sell everything that we can make. And the good news about this year because we had such large cracker turnarounds last year is we have a lot more volume to sell this year than last year. So we have more volume to sell.

Remember, we sell a good amount of that in North America, where we have good margins always. And then we had the export market that we would send material into from Chemical Intermediates to run the assets well. But those margins have been significantly compressed last year. So those margins now with the shortage out of the Middle East have gone up significantly. And so we're going to see the benefit of that.

So we see the benefit of [having] more volume than we expected in North America with the tightness in the overall markets from the imports that would have come from Asia that are not coming as much -- as well as the spreads expanding and a lot more volume to sell. (corrected by company after the call)

So we're definitely seeing share benefits as well as exporting to higher-value markets like Europe than Asia where markets are being shorted by material that's not coming from Asia as readily. So lots of different benefits going on there.

When it comes to the specialty side, I already hit the point, I think. But we definitely see the potential for volume and market share upside in AFP and Advanced Materials. But it has -- we haven't seen any significant amount of improvement yet. So we think that's still to come. A lot of people are very focused on the price of oil or the price of global natural gas which is certainly raising the cost structure of our competitors around the world much higher than us.

But the quantity shortage, I think, is an impact to the world that we haven't actually seen yet. The people are living off of a certain amount of inventory, whether it's customers or competitors in serving the market, but that's going to start running out and they're going to start seeing more shortages impacting the markets in addition to just the sort of direct oil or natural gas dynamic.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Understood. Very helpful. And then just on fibers, you specifically called out reduced customer shipments, some forward-looking volume risks. Can you elaborate what you're seeing there and why the implied second half earnings run rate should still show some improvement year-on-year?

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

Sure. So just to sort of go back just a moment to sort of what we're dealing with in fibers. When the earnings came off last year relative to '24, it was really multiple components. The tow volume is part of the story, but it's important to remember that about \$30 million of the decline was textiles, \$20 million was sort of stream utilization due to weak demand across the company and about \$15 million in energy.

So when you move to this year, what we told you in January was we thought that the tow volume would be moderately up relative to last year, which was a combination of locking in our contract business with everyone. So we had a modest price decline to lock in our contracts. But our Middle East customers were expected to grow a bit because they were the ones that were missing their contract commitments last year due to the issues we explained about the not realizing market share growth in their markets.

And so we were expecting some modest growth from that. Obviously, with the Middle East war happening, the -- those customers have been impacted. We actually have towed there to serve their demand, in some warehouses. So it's not an issue of us getting material to them. It's an issue of their ability to operate in this environment. and be able to export their cigarettes to other markets because a good portion of their production isn't just for the Middle East, it's for exports to other markets.

And so how they get that material out is a bit of a constraint. So Q1 was fine. We see a little bit of risk in Q2 where they're not going to buy quite as much in that quarter as we expected. And the real question is how do they come back in the back half of the year to meet their contract commitments.

When it comes to your back half question -- and the other thing that's going a little bit slower and why we lowered earnings about \$20 million in our guide here is the yarn business is not growing as fast in this market context. So we don't see that volume pick up -- and as a result, we don't -- we're not getting as much of an asset utilization tailwind as we expected.

So when you think about that, we still feel really good about how the business is doing. And then when you look at it from a second half point of view, have several drivers that will make the second half much better than the first half. First is these contract commitments. So even with our large customers who have signed annual contracts that holds to relatively constant to last year. The contracts allow flexibility in how and when they buy it.

And a number of them have chosen to buy less in the first half and buy more in the second half. So you have a pretty significant ramp-up in volume with our core customers around the world, just meeting their contract minimums, which is sort of what we have in this outlook. So that's happening. The second is you've got some continued build in the Naia yarn and film side of things. You will have a little bit of energy tailwind as the energy gets cheaper from a flow-through basis from the winter storm in Q1 to lower natural gas prices going forward. So a number of these factors come together to enable this. And of course, our cost reductions are sort of back-end loaded as well across the company, and some of that flows in here.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank AG - Analyst*

Thank you. Good morning, Mark, on CI, if you were to hold spreads steady at today's rates, and layer in that \$50 million of maintenance tailwind for Q3, what will that mean for Q3 EBIT? Could we see EBIT \$100 million in CI in Q3? Or is that too ambitious?

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

Well, I think, Dave, we sort of guided you that in Q2 would be around \$50 million in EBIT with a pretty tight market situation that's going on, obviously, right now. As we look at and what the trends could be, I would think it's going to be more similar than to be substantially up. I mean, without a doubt, the margins are tight right now and there will be a tailwind from Q2 to Q3 on the shutdown side.

But it then comes to your assumptions around when the Strait is going to get open. If the Strait gets open in the next months, obviously, some pressure is going to come off in the marketplace, and you'll have spreads moderate a bit.

So that makes it a little more complicated to sort of say it's going to be up. I think it being similar is a reasonable expectation. But it really comes down to how this whole Strait situation plays out and how long the market tightness goes. When you think about it, the price of oil, price of global natural gas are obviously incredibly high right now. and that gives us a very significant advantage in how we make a lot of products, not just olefins, but everything because a lot of our customers are also -- or competitors are based on natural gas, not just for energy, but for feedstock.

But if you think about just the cracker side of things on olefins, which is the vast majority of the improvement for us, you've got maps that are offline, and you've got methanol off-line, that's 15%, 20% of that, not just the oil, but these derived products, a lot of time for these refineries to restart. Then you got to get the derivatives restart, then you got to fix the logistics question.

And then you've got damage in places that have to be repaired. All of this says the moderation isn't going to go all the way back to pre-conflict in our minds on oil or for the derivatives. But certainly, when the Strait opens, some of that pressure come off and factor into sort of how the margins trend in the back half of the year. But we feel great about how the business has improved. We're happy to have the cash flow that comes from this business. And we certainly think that it lets us to reset better.

David Begleiter - *Deutsche Bank AG - Analyst*

Very good. And just on the potential volume upside and specialties from these disruptions in Asia, how do you go about making these permanent rather than just temporary?

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

That's a great question. So I mean I think it's going to -- it's unfortunately a "depends" answer, David, on where we pick up the volume. In some places where it's like competitor the shares may normalize back a bit. But customers are learning painful lessons about exposure and reliable suppliers.

And I think one thing to keep in mind is this is an excellent proof point about the advantages of being a North American chemical company and in particular, being a very vertically integrated chemical company with 80% of our assets in the US gives us a huge cost advantage but it also gives us a huge security supply advantage to our customers, and there's value to that.

And certainly, one we intend to take full advantage of in supplying our existing customers but also picking up new ones that we will intend to hold on to. When we pick up customers, by the way, from other materials, then the chances are we can hold on to them because the value proposition of our product is better once they once they start using it.

Typically, they're using some cheaper polymer like polycarbonate or SAN that doesn't perform as well, but it's cheap. When they switch over to our polymer they're going to see it perform far better with their consumers and then that should provide some stickiness in how we hold on to that share once they've realized it. So we're going to be doing everything we can. And of course, we're going to be trying to lock business in on contracts for a longer-term commitment where we can as well in this environment to sort of give us resilience on the volume and the price side.

Operator

Josh Spector, UBS.

Joshua Spector - UBS AG - Equity Analyst

Yeah, hi, good morning. Just curious around your visibility around any pull forward or not. I mean I think in your prepared remarks, you said it's not pulled forward, but how are you validating that? I guess, all the conversation around potential supply risks from some of your competitors probably makes your customers a bit more nervous and probably build a little bit of inventory.

So curious there. And then related with that, just how does this impact your production plans? I think you kept your asset utilization tailwind kind of the same. I would think if you're anticipating their demand, maybe there could be some upside there. So curious if you could talk about that as well.

Thank you.

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

So when you think about the demand pull forward, we're operating with the underlying assumption that end-market demand this year is going to be similar to last year, which is the same assumption we gave you at the beginning of the year. And it's the same thing we're using for how we think about planning and assessing what's going on.

And in that context, what we're seeing in volume growth in the second quarter sequentially is strengthened growth in the AM business, really in specialty plastics which is associated with all the methanolysis wins, which is associated with clear wins of new applications and market share we're getting in our core and Tritan business, our cosmetic business that doesn't have anything to do with pull forward.

We don't see a big spike in demand like last year where people are just trying to buy stuff ahead of tariff risk. I think part of what's going on is customers see the risk and want to get ahead of price increases or want to have security supply, but they're also being cautious about what they do when it comes to building too much demand with market uncertainty that we all can recognize in the back half of the year in this context.

And the other factor in this too is inventories are really low at the end of last year. So you also have to keep that in mind. That's part of the strength of recovery you saw from Q4 to Q1 as people just starting to rebuild some inventories or, if you will, end of destocking that was going on in Q4. But we don't see a lot of inventory out there in the supply chains at this stage. It's always difficult to see it.

To be clear, we certainly, along with the entire industry, have not been experts in understanding the supply chain inventory. But we don't see a lot of build of that, certainly not in March. And as we go through this quarter, our order books are really strong. So we had a good March, a strong March and we see that continuing in April and May. But June is a wildcard in this market context.

We don't see any problems, but we just don't have that much visibility all the way out to June. But overall, there's just a sign of given market pull-through in the specialties. As I said, in CI, we can sell what we want to make and probably can do that through the end of the year.

Operator

Frank Mitsch, Fermium Research.

Frank Mitsch - Fermium Research LLC - Analyst

Thank you so much. I was struck by the \$500 million of price increases that you have started to implement. I'm wondering if you could talk about how you see that phasing in. What has been the initial reactions from your customer base? And how does that match up in terms of your expected inflation in raw materials?

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

Frank, good morning. What I would say is, as Mark has already highlighted, in Chemical Intermediates, we were reacting in the moment and driving price increases and volume growth as we think about what's required to supply.

In the specialties, obviously, our pricing philosophy has been around the value of our products. And as we pace that with our partners over time. What we expect sequentially is in our specialties, mid-single-digit price increases from Q1 to Q2, when you think about our chemical intermediates, those are phasing in. I would say they're in the high teens or approaching 20% as we see that sequential momentum. So we were -- our teams across the world reacted in the moment in Q1 when March occurred, and we have good progress out of the gate.

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

Yeah. So just to answer the question around the sort of market competitive dynamics around this. Clearly, everyone is raising prices, whether it's polymers or chemicals across the entire industry. So you have that momentum to leverage being cautious on price increases will accomplish nothing when you're trying to worry if you think about consumer demand, except you missing out on margin, I think everyone understands that. That's point one.

Number two is the competitors we have, especially in the specialties, especially in Advanced Materials are Asian based. They've got significant increase in oil, and they have significant increase in natural gas prices. So their cost structure, their energy cost structure has gone up more than us. And so they're feeling a lot of pressure to manage their prices, and we're seeing the price increases from our competitors similar to us. across the markets.

So in this context, we feel pretty good that we can get the price up, hold our volumes. And we've got great commercial teams. We've shown the value of innovation by holding on to price incredibly well in '24 and '25 in very weak market conditions.

And now we're in a hyper inflated market condition, and we're showing we can increase our price in our specialties and keep track with our raw material and distribution costs, which is just further proof that we have a specialty business that has differentiated value propositions. And -- but we're always close to our customers. We'll always be keeping an eye on competitive activity and make adjustments if we have to, but we're not seeing the need to do that at this stage.

Frank Mitsch - Fermium Research LLC - Analyst

That's very helpful. And if I could come back and get a clarification, when talking about fiber is getting better in the second half of the year, part of that is you have contract commitments from Middle East customers that you're anticipating they're going to meet their contract minimums, et cetera, et cetera.

But wouldn't this qualify as force majeure? I mean wouldn't they be able to say, hey, look, I mean, this -- to me, it seems like the very definition of force majeure. How should we think about that?

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

First, to frame it, the Middle East customers are about 10% of our revenue in this segment. So the other 90% is predominantly tow as well as some yarn customers. And in that 90%, the real dynamic here is just they all have contracts -- they all have volume commitments. Our forecast is based on them buying at the bottom end of the volume range in those contract commitments. And so that's global, it has nothing to do with the Middle East.

And they bought less in the first half of the year and going to buy more in the back half of the year. And that is the principal driver of the increase in earnings in the second half relative to the first half. And when you get down to the Mid East part, these customers have made a lot of investments in new capacity, and we're winning in the marketplace, but not quite as fast as they wanted. And that's where sort of their volume draw last year sort of came up short. They had taken a bunch of actions and start gaining market share this year and are very focused on doing it.

They just have a logistics issue of getting it out. And so we've adjusted our expectations for the risk of that challenge by sort of lowering the earnings expectations segment to this \$210 million to \$240 million range, which is about a \$20 million drop. And part of it is just a bit less volume from them, a bit less yarn growth a bit less asset utilization benefit and you put those three together, and that's how you get to that \$20 million versus where we were originally.

And that's really sort of the dynamic. So it's about customers meet their contracts. Those customers historically have always met their contracts under any situation, and they don't have a force majeure excuse on that 90%.

Operator

Matthew DeYoe, Bank of America.

Matthew DeYoe - *Bank of America - Analyst*

Morning. I can't remember now if it was the slides or the release, but you talked a little bit about the EPA tariff refunds. Wondering if that was a tailwind to 1Q or if it's more 2Q, if it was, how much are you expecting to get back there?

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

Good morning, Matt, on the IEEPA tariffs, obviously, with the Supreme Court ruling and the Court of International Trade, we recognized about \$20 million within Q1. That wasn't a tailwind that the EPA recognition of the refund was basically in line with the winter storm impact. So you can think about those two as being neutralized in Q1. Also, that is the recognition. There's no further IEEPA refunds to recognize, and we would expect to get the cash related to that sometime in the second half of the year.

Matthew DeYoe - *Bank of America - Analyst*

Just to clarify, that's been like included in the 1Q results then.

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

Yeah, both the winter storm and IEEPA in the Q1.

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

So if you think about it, they neutralize each other out. So when we gave you our guide in January, we said this is our outlook excluding the winter storm impact that we are in the middle of. But by the time we got to the end of the quarter, IEEPA tariffs neutralized the winter storm it turned out to be about the same. So it was just a clean quarter relative to how we guided in January.

Matthew DeYoe - Bank of America - Analyst

All right. That's helpful. I'm jumping back in. So context is helpful for me. And then on methanolysis, right. I just wanted to kind of square some of the commentary because you talk a bit about new wins. And at the other side, you're saying demand hasn't really changed much. So can you just kind of refresh where we are on kind of the upscaling here?

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

Sure. So when it comes to the revenue of circular, there are two components to it, right? There's the core business we have where we're adding recycled content to our Tritan products, our cosmetic products in our specialty businesses and growing those businesses. Obviously, those end market businesses have been very challenged economically from '22 through '25 as a discretionary spend where consumers have pulled back.

So the rate of growth we've seen on the specialty side has not been as good as we would have expected in the last couple of years in '24 and '25 in particular, as we were ramping up this plant. The good news is we've been winning some more applications through the back half of last year that are showing up as additional revenue that you saw some of the benefit in Q1, you'll see it build in Q2 and even more so in the back half, on that specialty side with those wins. So to be clear, we're not saying that end market is improving. We're just picking up more market share in durables or in cosmetic packaging with our value proposition. So that's happening.

Then on top of that, we swung a line that can make Tritan back to making PET that we've explained to you guys a year ago so that we could make PET and serve that our pet market because Pepsi and some others wanted to start buying sooner than their original contract obligations because they saw the value proposition we have with our Renew products.

So our superior clarity, our superior quality our superior performance and how the product actually performs was recognized and they wanted to start building and use that material this year. So when you put those two together of selling more rPET with Pepsi and with some other packaging companies, brands, you get that 4% to 5% revenue growth that we talked about in January.

And when I was answering Vincent's call, I was just confirming, we still see that 4% to 5% growth. But the Middle East conflict hasn't yet significantly increased that to be more than 4% to 5% growth. We're going to pick up volume for other reasons, as I described, due to sort of impact on competitors. But in this case, we're going to sell what we can make and we're ramping up our PET capability to sell even more, but it takes a bit of time to do that on the capacity side to continue supporting that growth, not just this year, but also additional growth next year on the rPET side.

Operator

Jeff Zekauskas, JP Morgan.

Jeffrey Zekauskas - *JPMorgan Chase & Co - Analyst*

Thanks very much. You talked about earnings \$50 million, perhaps in the second quarter and in the third quarter in Chemical Intermediates, but propane prices have really been pretty volatile. Sometimes they're \$0.75 a gallon and sometimes they're \$0.90 a gallon. How are you handling your propane values? And can you reach these numbers that you're talking about if propane is at \$0.90 a gallon?

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

So Jeff, obviously, we're buying propane at the market prices that you're referencing. We do believe here in Q3 -- I'm sorry, in Q2 that we believe that we've appropriately taken that into consideration as we look at the supply-demand balances and how we've priced into the market with our price increases. So yes, there's some range or, as we say, approaching \$50 million for the quarter, but we think we've taken that into the appropriate context for \$0.75 to \$0.90 range.

Jeffrey Zekauskas - *JPMorgan Chase & Co - Analyst*

Okay. And you talked about for the year, perhaps approaching the cash flow that you generated last year. What are the parts of working capital that are sort of holding your operating cash flow back? Are they payables or receivables or something else?

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

Yeah, Jeff, what I would say is, as always, the Eastman team does a great job of generating and managing our cash flows, and that was demonstrated again here as we think about the level of consumption of cash actually being lower than the prior year. So for Q1 out of the gate, I believe, but we've got things well managed and under control.

As we think about sequentially, we know that we built some inventory in Q1 for our large turnarounds, and we expect to deplete that. That's going to be offset with some of the inflation that we've described and I've been talking about through the call. At the end of the day, the pressure will come as you think about there's pressure on the inventory and on the receivables account, but we also think that, that will be mitigated by higher accounts payable at year-end.

And we're just trying to look and see what's the second half scenario when we get to midyear as we then think about managing all of the various levers. So under control, the range is narrowed because of the level and magnitude of inflation overall. And as you think about net working capital, you've got two-third in your assets and one-third in payables. So net tension on that front. That's all we're highlighting at this point.

Operator

Kevin McCarthy, VRP.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Yes, thank you, and good morning. Mark, can you speak to the expected quarterly earnings cadence in Advanced Materials? It seems like we have a fair number of moving parts there. I'm curious about how you're dealing with paraxylene inflation here and whether you think you can recover or possibly over recover those sorts of input costs, whether there are any lag effects we should be keeping in mind, and I think you called out some auto production variances there.

So maybe you can kind of just kind of walk us through some of those moving parts and think about whether you would expect earnings to do better in the back half versus the second quarter and that sort of thing.

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

Sure, Kevin. So when you think about Advanced Materials, there's a cadence, as you said. So first of all, it was a great recovery out of Q4 into Q1. Obviously, we had some asset utilization headwinds with some choices we made there. So as you go into Q2, you've got the benefit of seasonal increase in volumes, these application wins we've talked about, starting with rPET and Renew specialty product selling, but other products growing, that's going to give us a lift into Q2.

The automotive market, relative on a year-over-year basis for the year, we're expecting to be sort of down sort of low single digits. So that's on a year-over-year basis, it's a bit of a headwind. On a sequential basis, it's a tailwind because the performance film business always has a big ramp-up in volume from Q1 to Q2 that we'll also see helping us on that front. So you have all those factors coming together on the volume side. And then you've got the actions we're taking on price, as you mentioned.

So teams have moved incredibly quickly to start implementing prices on either April 1 or May 1 to cover the expected increase in raw material costs, paraxylene, VAM, the key raw materials that go into this segment. And we believe we're very much on track to sort of keep pace with those as we go through the quarter. And then you've got utilization benefits coming in underneath of this that also start to help out. So a number of reasons why we'll certainly have a better sequential quarter in Q2.

And then as you look forward into the back half of the year, what you'd expect to see here is continued volume growth because a lot of the build in the circular side is back-half loaded. You're going to see continued improvement and just wins in general. So the back half we won't have a normal seasonal decline in volume because of all those wins that will offset what is still a normal seasonal decline.

So you get volumes that could be flat to a bit better in the back half, which would be not normal, but it makes sense with all the innovation we have in this market context. So you've got that happening. You've got the prices having fully caught up. So you've got a first half to second half sequential tailwind in price cost as that plays out as well as energy coming off a bit. And then you have the cost savings and a lot of the utilization benefit is going to be in the back half, too. So a number of reasons where AM will be stronger than normal in the back half of the year, which is also true of the fibers business being stronger than normal. And just to finish out the strength since we're on the topic, AFP would be normal, right? So it will be normal seasonality in the back half of the year.

And then as we just talked about Chemical Intermediates, margins are going to be better in the back half of the year relative to the first half of the year, especially on a Q1 basis, relative to the back half. So when you put all that together, that definitely drives earnings to be very attractive in AM to be as we expected as well holding similar in AFP, CI a lot better this year. Fiber is a bit off. So the overall number means that our earnings per share should be above \$6 a share.

Kevin McCarthy - Vertical Research Partners LLC - Analyst

Very helpful. And then secondly, with regards to your Chemical Intermediates segment. How much harder can you run your assets in the second quarter and moving forward relative to the first quarter. Is there a meaningful uplift from utilization? Or is it really all about the more favorable spreads there?

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

So I would just highlight, obviously, we were impacted by some of the winter storm on operations as well. So as we think about going from Q1 to Q2, we'll have -- definitely have that as a tailwind. And also as we look at our olefins and the Oxo's from that perspective, I would highlight that we did build some inventory in Q1 for our planned acetyl turnaround. So our acetyls, upside here in Q2 is limited. But for us, we see most of that margin growth coming in our olefins at this stage.

Operator

John Roberts, Mizuho.

John Roberts - Mizuho Securities USA LLC - Analyst

Thank you. Within the automotive weakness, are you seeing better performance in your coatings ingredients than you're seeing in the films area?

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

Good morning, John. So no, we're not really seeing a difference. You have to remember, a lot of our demand is driven by the refinish market as opposed to the OEM market on the coating side. Obviously, that market has been a bit challenged just like the performance films, the aftermarket in general is more discretionary in consumers' behavior that's been through in '24, '25, and we expect that to continue here the overall auto market, as I said earlier, is expected to be a little bit soft.

And I'd say our demand will be in line with the market on the coating side. And certainly, I think that's not as -- not true in the AM side. So we'll continue to do a little bit better than the market with our innovation like HUD and even EVs still take 3 times as much material per car versus ICE where there is growth in EVs. And I think some growth in EVs will certainly come back with -- especially in places like Europe and China with a high price of gasoline you're going to see some people moving back to EVs for economic reasons, maybe even in the US.

But I would focus more in Europe and China for that. So I think that there's -- those kind of advantages will help us do a little bit better on the interlayer side, performance film side will be like coatings more in line with where the market goes.

John Roberts - Mizuho Securities USA LLC - Analyst

And then was the winter storm impact in the tariff refund benefit largely booked in the same segments?

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

On, what I would highlight is, obviously, those aren't going to be uniform and -- but I would say there's not a material difference that I would highlight for you.

Operator

Mike Sison, Wells Fargo.

Michael Sison - Wells Fargo Securities LLC - Analyst

Thank you for calling. Hey, good morning. For Chemical Intermediates, can you give us -- can you give us a thought what pricing needs to be year-over-year in 2Q to get to the \$50 million? And just curious on the delta there in terms of the improvement year-over-year.

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

Yeah, Mike, what I highlighted earlier is you can think about the sequential price increases approaching 20% for Chemical Intermediates overall.

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

And while we're adding in the specialties, it's about mid-single-digit price increases going on the specialty side that gets you to that \$500 million.

Michael Sison - Wells Fargo Securities LLC - Analyst

Got it. And then it seems like Advanced Materials margins are going to continue to -- will improve sequentially in 2Q. This is a segment that I recall it used to be at 20%. Is that still the potential for that segment longer term?

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

Absolutely. The business is a great business. The main issue that's affecting the margins in Advanced Materials is volume relative to fixed costs. It's not a price variable cost issue. The price of variable cost has been good, held up and been incredibly stable, frankly, from 2022 to now. And even now with incredible inflation that we're facing in the business and across the company, we're implementing prices to keep up with it.

So this really -- when you think about AM is more of a utilization-based issue, right? So you've got the underlying cost structure, then we added \$100 million of the cost structure for the methanolysis plant and you've been stuck in a really weak economic environment that hasn't improved since 2022 where volumes in housing, consumer durables are still well below 2019 levels and even auto is now dropping probably below 2019 levels with the trend this year, we sort of got back to 2019 last year.

So a lot of opportunity and a lot of pent-up demand of cars 15 years old appliances getting to their end of life that's in our future. So we feel very good about demand coming back when we get past one crisis after another and driving utilization benefits, and we're creating our own growth and filling out the methanolysis plant in a weak environment, proving innovation is a critical success factor for our company and how to win in this industry.

And we're holding our price cost stable through all that. So that starts translating into materially improving margins as well as a utilization better than last year without the inventory management of last year. and cost reduction activities that have been pretty significant in '25 and '26. So no, we feel that we can get the margins back. We just need a stable economy.

Operator

Arun Viswanathan, RBC Capital Markets.

Arun Viswanathan - Rbc Capital Markets - Analyst

Yeah, thanks for taking the question. I guess a few questions. So first off, just on the spreads environment in CI, you noted some strength, and I guess, obviously, that should continue into Q2. I guess, are you seeing any supply issues for your competitors or anything out there that could lead to maybe some permanent rationalization of capacity and I guess, what are you seeing on the supply-demand side for some of the markets in CI?

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

It's a great question. I mean under this sort of economic stress, there was a lot of assets in Europe in the Chemical and Immediate world that we're on the edge of being rationalized, shut down for economic reasons. And obviously, the economic situation has gotten worse for them. And I think that's also true of some assets in Japan and South Korea, where there's a lot of discussion around rationalizations.

So I think it's reasonable to expect that some people are going to look at the current situation, say, if I was going to planning on shutting that asset down two years maybe I just do it now in this context. I don't have a lot of evidence of that because we're 60 days into a crisis. So everyone is just managing their way through this dynamic, and we don't even know how long the Strait will stay closed. So a lot that will factor into that.

But I do think global natural gas prices, for example, will likely stay higher for some period of time because even when Strait opens, Qatar has got to repair all the damage that was done to their fields and their processing capability. You've got oil fields that could get permanently shut in Iran right now if this goes on much longer, a lot of debate around that.

You've got just -- it's hard to imagine oil production globally and natural gas production globally suddenly coming back to pre-conflict levels. Not to mention, turning oil and natural gas into methanol and naphtha and ammonia and everything else, it's just -- it would be very surprising for just a snap back to those low levels.

So I think all of that then just creates more economic pressure on the people on the far right side of the cost curve. Those locations I just mentioned, they're going to have to start considering some rationalization. For sure, we're the low-cost winner in this kind of context. China has got its own dynamics, where we will probably be fine.

So I wouldn't expect a lot of rationalization there except for some maybe they're old assets that are not competitive anymore as well, I guess. So yes, we expect to see it, but I can't quote you a bunch of plants that have announced in the last 60 days.

Arun Viswanathan - Rbc Capital Markets - Analyst

Okay. I appreciate that. And then just as a quick follow-up. Obviously, historically, your spreads have expanded after inflationary cycles like this. Maybe you can just contextualize the magnitude that we should expect on maybe AM and AFP spread expansion in Q3 and the durability of that. I guess just wondering if you think that these feedstock levels will allow for some more durable pricing power as you move through the year?

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

I think we've talked previously around high oil environments being positive for Eastman. And as Mark has just highlighted cost curves over time. In our specialty businesses, obviously, we price off of the value and the relative value and Mark has highlighted the tension and, I'll call it, price increases and lower-value products within the polyester business and how ultimately that can lead to share and other opportunities as we continue to grow. As we think about the momentum, obviously, we're making the price increases so that we're pricing through the quarter to ensure that our margins are stable. And we'll look to continue to do that into Q3.

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

One thing you have to watch out, we run our business on a dollar per kg basis, on a percent basis. So when you get these kind of significant increases like '21, you also have a denominator math problem. So the prices go up a lot that goes into the denominator, not just the numerator when you're calculating margins. So you've got to watch out for that. But we'll be very clear about trends around how dollar per KG is going in our margins.

Operator

Laurence Alexander, Jefferies.

Laurence Alexander - Jefferies LLC - Analyst

A short term and a long term. In the near term, how are you thinking about the rough magnitude of working capital as an impact on your free cash flow conversion this year? And secondly, you mentioned kind of the sort of hitting the quantity limits or the outright shortages.

Do you have a sense from your customers where kind of they are expecting or kind of where everybody is waiting to see this actually crack in terms of which end markets feel the outright shortages first? And then which ones if shortages do develop, take the longest to fix.

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

So on the working capital front, as we think about the full year impacts, obviously, we built some here in Q1. A lot of that was around planned turnaround. But just as a proxy, I would use the \$500 million increase in revenue. And you can take one-third of that as I think about how things could balance out and that could be the full year headwind.

And obviously, that could go up or down depending on the timing of the Strait opening, et cetera. But I think \$150 million, \$200 million roughly.

Can you repeat the second question, please?

Laurence Alexander - Jefferies LLC - Analyst

Sure. When you think about where shortages are likely to develop first, when you speak with your customers and they say kind of where are the most -- where they're warning you or if they do warn you about potential plant shutdowns, where they're flagging kind of -- that may happen first or which end markets or -- I mean, obviously, Southeast Asia seems most likely. And then kind of which ones are saying, well, if we shut down, it's going to take us a long time to come back up and fix things because it snarls up the downstream chain too much.

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

Yeah. So those are great questions. I mean there's a question about our competitors, and then there's a question about our customers and then the whole supply chain. We're not seeing any disruption yet at the customer level. where they can't get something to finish making the product.

It's like the semiconductors back in the auto situation back in the 2021 time frame. We are keeping an eye on that, but we haven't had any customers come to us with that problem yet. So it will be sporadic, and it will be customer specific. It won't be something you can really foresee is my guess and how that plays out. But we're keeping a very close eye on it.

I think that the dynamics around this is obviously pretty volatile, which is why we're not giving full year guidances. You've got a lot of potential upside as we've been talking about. There's obviously end market risk with inflation that has to be all sort of weighed together. But what I'd say overall is we feel really good about our team and how well they perform. When you think about all the dynamics thrown at them all the way back to COVID to this inflationary environment to total collapse and sort of discretionary demand in '22 that stayed with us until now.

And then Mid East crisis. And it's a lot to manage. So I'm incredibly proud of how our team manages through all this and find a way to extend our value propositions. I think the innovation strategy is one that is being proven out to have been a very good choice we made over a decade ago to have ways to defend our value to grow in markets where they're flat or challenged and defend our value in weak times or supply-short times like now, and it's creating a lot of strengths in this company.

And the circular platform certainly is turning out to be a very good choice that's delivering a lot of growth in this market context. And then, of course, translating all that into cash flow and having a strong balance sheet. So we feel good about how we're navigating with this. We think we have a very meaningful improvement in earnings this year relative to last year. And we're going to focus on what we can control in this chaos to keep delivering for our shareholders every day.

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

As that was the last question, I'll say thanks again for joining us. We appreciate you spending time with Eastman. I hope everybody has a great day.

Operator

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

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