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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, everyone, and welcome to the second-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 & Corporate Communications*

Thank you, Lucy, 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. Yesterday, after market closed, we posted our second-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 two items. First, during this presentation, you will hear certain forward-looking statements concerning our plans and expectations. Actual events or results could differ materially. Certain factors related to future expectations are or will be detailed in our second-quarter 2026 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-Q to be filed for second-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 second-quarter 2026 financial results news release.

As we posted the slides and accompanying prepared remarks on our website last night, we will go now straight into Q&A. Lucy, please, let's get started with our first question.

QUESTIONS AND ANSWERS

Operator

Patrick Cunningham, Citigroup.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Good morning. Just on Advanced Materials, pretty solid volume and mix growth in the second quarter. You mentioned some offsets from lower OEM production, weak aftermarket durables I guess, how should we think about the recovery trajectory of these weaker end markets heading into '26 and the sustainability of this volume growth and confidence in ultimately a stronger second half?

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

Sure, Patrick, and good morning. I have to say I'm really incredibly excited to be talking about the company today and the tremendous execution our teams are doing across all businesses has really been a great result in Q2. And now we're looking at how we move forward in Q3 in the back half, I think, is an important conversation.

What I'd say, when you think about the back half of the year, we're not expecting any improvement in the end markets when it comes to sort of the weak discretionary markets, auto, B and C, consumer durables. We're certainly benefiting from modest growth in what we call our stable markets across the entire portfolio. And so we're not really seeing any sort of changes there.

We're not seeing any impact from the Mid East war yet on sort of hurting end market demand in a material way across the world as far as we can see it right now. So in that context, I think we're really well positioned to grow earnings, not just for Advanced Materials, but for the corporation as we look at the back half of the year.

Starting with Advanced Materials, what you can certainly see is the volume growth has been strong into Q2, which is driven by a lot of wins in the marketplace, innovation-driven wins, and the growth that we're having in the circular business is still somewhat modest and will ramp up into the back half of the year. So you'll see the Renew volumes continue to ramp up. You'll see we'll continue to win in marketplaces through innovation, which would offset what is a normal volume decline in the back half for AM. We won't see that.

Volumes are more likely to be similar to the first half. So that's actually a good solid base to build from. And then on top of that, with Advanced Materials, you've got asset utilization tailwinds that are coming from all the actions we took. And we mentioned in the prepared remarks, where we reduced finished goods in the front half to offset some of the raw materials we're buying, like paraxylene to make sure we had secured supply. That created a bit of a utilization headwind in the first half.

That will sort of flip around to being a tailwind as these markets remain solid, and we have to ramp up production. In fact, we're really excited that Tritan line is coming online now because we are pretty limited on capacity with the volumes we had in Q2 and how we've switched one of our Tritan lines to serve the PET growth.

So that's coming on just at the right time. And now we're taking our paraxylene that we bought in advance for supply reasons and converting it to finished goods in the back half of the year. So it gives you a tailwind on utilization, but not a headwind on cash. So that's all going well.

And then on the price cost side, the team has done a phenomenal job of getting prices up with raw materials. And as they've caught up, that will now flip into a tailwind in the back half of the year also helping AM have solid earnings growth into the back half of the year, which is not our typical pattern. So that's great to see that strength build.

The second driver I would just mention to finish off the story is Fibers, the tow volumes will increase in the back half of the year, materially as customers are increasing their orders to meet their annual minimum volume commitments with us. So that's coming through and there'll be some textile recovery we see as well, because volumes were quite low in the first half of the year and some of the wins we're having will start bringing us back to sort of full volumes relative to last year.

There will be some offsets, obviously, in Chemical Intermediates and how those margins may moderate with the state of the Mid East conflict. What I'd say on that front, though, is it's pretty uncertain what's going to play out right now. But right now, we're expecting some moderation. And then as for petrol products, we'll have some seasonal decline like normal.

So when you put it all together, we're really in a good position to deliver a good strong earnings improvement relative to last year. We basically had a strong beat in Q2. We're talking about a very solid Q3 and so when I think about our view on earnings for the full year today, I would say that it's better than where we were in April and certainly feel like we're on a good track to very strong earnings growth in this context.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Got it. Thank you so much. And then maybe just a follow up on Chemical Intermediates. I think the direction and magnitude spread changes is anyone's guess at this point. But you had a pretty robust volume increase in the quarter. I guess what sort of dynamics drove this volume surge, and how much of it was realizing some of those durable share gains you alluded to last quarter versus maybe some temporary pull forward there?

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

Yeah. So on Chemical Intermediates and volumes, the vast majority of the volume increase was driven by, on a year-over-year basis, lack of significant shutdowns this year relative to what we had last year. Last year, we had planned shutdowns and some unplanned shutdowns. And so we lost a lot of capacity to sell the market. This year, the volumes are running at normal capacity, which is a lot better than where we were.

That does include some pickup in share due to the supply tightness in the marketplace. That's a quality of earnings comment, which is we're always going to sell the volume. It's just where do we sell and what the margins are. In North America, we picked up some share where the margins are much more attractive than the export markets.

Obviously, at the moment, the export markets are also very attractive. We picked up some volumes in some attractive spots around the world where we saw opportunity to capture that value given the disruptions in the marketplace. So the volumes are very good, but it's more about mix quality and the tightness and the spreads that stacked on top of that.

We also emptied out the cavern on ethylene at very attractive prices. So we had some stored up ethylene that we sold off in the marketplace.

Patrick Cunningham - *Citi Infrastructure Investments LLC - Analyst*

Thank you so much.

Operator

Josh Spector, UBS.

Joshua Spector - *UBS AG - Equity Analyst*

I wanted to follow up on Advanced Materials volumes. So I mean, obviously, a solid quarter this quarter with the 5% growth you had. I'm wondering, one, can you split that between what you call the base business versus the methanolysis PRT contribution?

And then in your comments on 3Q, it seems like you're talking about volumes flat, but the comp is really easy. So I'm not sure what you're baking in there versus a year ago and why volumes wouldn't be up. I'm obviously missing something. So if you can help me there.

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

Let me just start clarifying what I said, volume slide is a sequential comment, Josh. It will be substantially higher than last year. So we were just talking about volumes will be similar to Q2 in Q3. So in that context, which is much higher than last year, the volumes -- a lot of it is wins we've had.

On the Renew side, it's important to note that the growth we're seeing is greater than $100 million, which is incredibly strong in the first half, doubled revenue compared to last year. It's evenly split roughly between specialty growth and rPET. So we are seeing continued wins and growth in the specialty side of the house. And we are also seeing the PET wins happening as well, and ramping up.

And I would say more of the front half is on the specialty side, the back half is more on the PET side as we're ramping up those capacities to serve the market. We've been a bit challenged on some of the production capability and getting it fully lined out, which is part of why we reduced the revenue outlook is capacity constrained a little bit of slowness in the market, but still incredibly strong growth relative to last year.

So we don't really break out in detail by quarter what is going to be Renew versus the rest of our business. But what I can tell you is when you look at the full year, about half the revenue growth in the Advanced Materials segment is going to be from Renew and about half is going to be from specialty growth. So that also says great that circular is kicking in, great that it's delivering additional growth with that growth platform, but also the specialty businesses are healthy.

And through innovation, not in market demand, we're creating our own growth and success across the marketplace. One of the great stories in that is actually Performance Films. So in the first quarter, earnings were quite challenged in the segment level. That was mostly due to films and in particular, Performance Films. And we took a series of actions that were very successful.

So we launched a better broader market strategy to win share in China that's been incredibly successful as we move from Q1 to Q2. And also, we took out an optimized -- a bunch of capacity to optimize what we make in North America and ramp up our asset in China, which is a much lower cost asset. So big improvement in cost structure.

So that led to pretty a big part of the improvement in earnings from Q1 to Q2. It also means when you get to 2027, we're going to have an easy comp and probably do $25 million to $30 million better in Q1 next year relative to this year. So good adder for next year as well.

Joshua Spector - *UBS AG - Equity Analyst*

Okay. Thanks. Yeah. That's helpful. And I apologize on the sequential vers year on year here. I guess you made an interesting comment on the PRT side or some of the rPET wins you're trying to go for. You talked about it being more capacity and a ramp-up.

I guess in your comments, in your prepared remarks when you updated on the circular growth, you seem to talk more about consumer demand. I guess, which is the bigger factor to your adjustment of your growth? Is it the consumer demand or was it your ability to supply?

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

I'd say it's a bit half and half. So there was some limitations on production on the rPET side. We're not changing the outlook that much. We've just brought the revenue outlook to be a bit below the range we gave you earlier. And then I would just say it's a little bit of slowness everywhere about the rate at which customers are ramping up on specialty and some of the rPET purchases.

I mean, the economy's incredibly weak right now. We're not seeing anyone back away from their commitments to recycled content and seeing the value of it. All of our brands, as you guys know from earnings calls, are struggling out there. Whether it's on the consumer durable side or on the consumer packaging side, the economy's tough. People are very focused on managing costs, so they're being extremely disciplined on what premiums they pay.

And I find it incredibly encouraging that we've held onto our specialty customers who are paying premiums in this marketplace, and that we're still growing it. I feel very good that we see a ramp-up in rPET in this kind of market context, which says people really see the value and the need of it because we have a superior product and quality and clarity. And that's incredibly important for durables always, but also important for these consumer packaged goods companies.

So we're very encouraged about the confirmation of our value proposition, and we're all just stuck in a weak economy waiting to find ways to keep growing.

Joshua Spector - *UBS AG - Equity Analyst*

Understood. Thank you.

Operator

David Begleiter, Deutsche Bank.

David Begleiter - *Deutsche Bank AG - Analyst*

Good morning. Mark, just on Additives & Functional Products, very resilient margins in the face of really challenging end markets. Can you talk to what's underpinning those resilient margins and maybe views in the back half of the year for those margins?

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

Sure. Yeah. So Advanced -- Additives & Functional Products has been a phenomenal success story for us. It's a tribute to a phenomenal team, a great set of products and markets, and just great execution every day. So the benefit that Additives & Functional Products has versus AM is the stable markets that we serve are two-thirds of our revenue. So with stability, it becomes much calmer behavior by everyone involved.

And so in that sense, whether it's in pharma, whether it's in water treatment, ag, personal care, these series of very stable markets, aviation, we've got great industry structures. We've got very strong competitive positions. And a lot of cost pass-through contracts associated with some of these businesses that give you a lot of margin stability. So the CPTs will fluctuate quarter to quarter on headwinds and tailwinds to some degree.

But on an annual basis, it provides a lot of margin stability. So you've got these businesses that have solid moderate growth. You've got great industry structures in the products we have in this business and their stability. CPT is adding to that margin stability on top of it. And where we don't have CPTs, teams have done very good work in raising prices consistent with raws and materials as well in this environment as we went into Q2 and holding those margins in the back half of the year.

So it's just been a great, solid business.

David Begleiter - *Deutsche Bank AG - Analyst*

Very good. And just on Kingsport methanolysis, do you have an early view on revenue growth in 2027 from that plant and product line.

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

Well, I'm not going to give you a specific number, Josh -- David, sorry. But what I would say is, we're building up revenue momentum through the year. So Q4 will be the strongest revenue quarter. When you think about that $100 million this year, of course, that was then annualized into next year, and then we will build on it. And I would expect the same kind of build next year on the specialty side of the revenue as we continue to win business in this environment.

And the PET side, I think, is well positioned for strong growth next year, but we need to see how that all plays out as we go through the back half of the year. But I would expect it's another strong performance next year on top of this year.

David Begleiter - *Deutsche Bank AG - Analyst*

Thank you.

Operator

Frank Mitch, Fermium Research LLC.

Frank Mitsch - *Fermium Research LLC - Analyst*

Good morning. Mark, one of the more impressive things about the quarter is what you've done on price costs in the specialties businesses. I mean, typically, we think of those as being priced for value and use and so forth, but obviously this is a somewhat unusual environment. Can you talk about what's been going on on the cost side in the specialties business and how you're able to get price ahead of that?

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

Well, Frank, thanks for the question. And I think one of the strengths Eastman's had for a very long time is our discipline around price cost management. I think we've done an excellent job through the years, whether it was catching up to raw material increases in 2021 or maintaining great price discipline when markets are softening and holding onto value in those contexts.

I'm incredibly proud of our teams and how they did it. And as always, once the war started, they moved immediately into action, into taking the price increases necessary across the markets in both of the specialty businesses.

What I'd say is that we succeeded in getting the prices in. We weren't greedy. We just put in price increases to cover our raw material and energy and distribution costs, because we want to be fair and reasonable to our customers, and we're not going to sort of eat those costs, but we're also not going to try and take advantage of them. A lot of other companies, I think, get aggressive in these times.

We had some feedback where we were being disciplined in how we did that, gives us a lot more credibility and durability in those price increases, not just in getting them increased, but into holding onto them. The business is centered around driving value through volume growth and mix uplift in our innovation. And -- but we do a very good job of keeping our variable margin per kg pretty consistent and attractive. In fact, through all this chaos, that's been relatively stable since 2019 to now.

And it's a testament just to the quality of the products and the innovation that we have in the marketplace. You can only do that if the value of your products are meaningful to your customers. And so when we can increase prices like this, it's a good proof point around these are specialty products that have value, that customers will pay a higher price because they need them, because of what we do in their products and how we create value for them.

And so I think that's a great way to test your portfolio, and I think we are passing that test really well in Advanced Materials and AFP.

Frank Mitsch - *Fermium Research LLC - Analyst*

So certainly, loss have been fairly volatile and every time there's a peace proclamation, you tend to see it go down, and then it reverses the other way. Can you talk about the sustainability of that price cost into the third quarter? Or probably said another way, how'd you compare your July margins with the second-quarter average? If you could offer us that.

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

Sure. And Frank, you're asking about the specialties just to clarify.

Frank Mitsch - *Fermium Research LLC - Analyst*

Yes. That's exactly the specialties, yes.

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

Chemical Intermediates is a very different conversation. So on the specialties, our intention is to keep the prices in place. The raw material costs and energy costs, as well as distribution costs, are still flowing through. And so we would maintain good price discipline in these businesses as those higher costs flow through.

So what will happen is prices will hold. The raw material costs are probably a little bit less than they were in March at this point, obviously, if you go look at things like paraxylene. But we still have a lot of flow-through. But on a year -- on a first-half, second-half basis, the price discipline we have in July and expect to continue as we go forward will give us a tailwind on price cost in the second half relative to the first half.

Frank Mitsch - *Fermium Research LLC - Analyst*

Terrific. That's what I was looking for. Thank you.

Operator

Jeff Zekauskas, JPMorgan.

Jeffrey Zekauskas - *JPMorgan Chase & Co - Analyst*

Mark, over time, Eastman has really been focused on investing in methanolysis in Kingsport, Texas, and Europe. And those plans have altered, in part because of what customers want, what the government wants, what capital costs are like. And so when you look at the trajectory of your capital expenditures, your R&D, your investments, I would imagine that those have really shifted because of the delays or obstacles that have been put in place that have inhibited investment in methanolysis over a longer period of time.

So maybe if you could sort of briefly talk about the redirection of Eastman over a longer period of time. (multiple speakers)

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

Yeah. So I actually wouldn't support your characterization. So the way we look at it is, I think, considerably different. Methanolysis, I think has been a great platform and a great investment. We see a lot of long-term potential through the platform. Without a doubt, when you start a platform like this in a very strong economy, like we had in '21 and the beginning of '22, and then you get to a much weaker economy, it's easy to sort of look back and sort of review, did we make the right set of choices?

At the same time, you can't just sit here and look at the world you live in at this moment. You also have to look at the future. And I think we believe that at some point, the economy will be healthy again. And in that context, where there's some health in the economy and everyone's not just focused on cost reduction, we'll see pretty significant acceleration in demand for Renew products when it comes to the revenue side of this question.

Both recovery in the consumer durable market will naturally give a huge lift to Renew. As well as, like I said earlier, we're not seeing anyone back off on the value of recycled content. I mean, the plastic waste as an issue in the world is not going away. And it's not a bipartisan issue for the Democrats versus Republicans. Everyone hates plastic waste. No one likes it. No one wants it in the environment. People are worried about its impact on their health.

This issue is not at all going away, and every brand knows it. They're just trying to figure out how they manage taking responsibility for the polymers that they put in their products relative to cost management here in the short term. So our confidence in revenue here, both on the specialty side and on the rPET side, is great. Even greater on the rPET side, because we're proving that we have superior quality and clarity to mechanical every day in a pretty significant way that's being recognized in the marketplace.

So actually, my point of view about the value proposition on the rPET side is much stronger today than it was a year ago and what we're seeing in our relative value recognition in the marketplace. I mean, think about how much rPET increases are going on this year with our key customers in this market context. So revenue-wise, we feel good. It's frustrating to be in this current economy for everything in the chemical industry, but it doesn't question the value proposition of why we got into this.

And then when it comes to the capital side of the equation -- first of all, on the technical side of the equation, the plant's running phenomenally well. So we've got a technology running that no one else on the planet can do as well as we can. I mean, with our yields above 90%, with the operations running reliably now, with our ability to see that we can debottleneck the plant by 30%, to get more volume out of this plant and improve ROIC, it says that we have an operational and technical advantage to anyone in this world.

And then on the capital efficient side, without a doubt, capital costs have gone up a lot. That's what we were sort of facing as we looked at the project in Texas. And we -- with the loss of DOE grant and us having to rethink how to approach the marketplace, we started developing a much more capital efficient option about how to go forward. And we're getting close to talking to all of you about how that looks like in specifics, but we're not quite there yet.

But we feel like we have a great path forward on a much more capital efficient option in doing this. And because we can debottleneck Kingsport, it allows us to push out the need to spend that next chunk of capital until '28 so that we have time for the market to recover and align with that investment.

Jeffrey Zekauskas - *JPMorgan Chase & Co - Analyst*

Thanks for that. And for Willie, receivables, I think, for the first six months have been a use of cash of $370 million. Why is there a ballooning of receivables? What might be the penalty this year? And how much of that can you get back next year?

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

Thanks, Jeff, for the question. Yes, I think as Mark has already highlighted, our commercial teams have done a tremendous job on both managing price and price cost as well as the volume. Our revenue is expected to be $500 million higher due to the pricing actions that we're taking this year. And ultimately, we're focused on delivering earnings and solid cash, strong cash flows in any environment.

So as we look at it, and as we highlighted when we talked in Q1, we expected the pathways to be narrowing. Actually on an overall working capital, we actually consumed a little less here in the first half than we did last year. You've heard us being disciplined on inventory, as Mark also highlighted.

But as we look at that, and having a stronger back half, we actually will not get as much working capital back this year as we did last year. So that's where you're seeing around, call it roughly $75 million reduction on a year-over-year basis in our, I'll call it multiple scenarios that we're looking at. So going from $970 million to approaching the $900 million, and we feel confident that we can do that.

Jeffrey Zekauskas - *JPMorgan Chase & Co - Analyst*

Thank you.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley & Co Ltd - Equity Analyst*

Good morning. Mark, some moving parts in both in Fibers in both tow and textiles for the back half of the year. I wonder if you could just unpack those a little bit and help us understand how much of that we need to follow through into 2027?

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

Sure. So when it comes to the back half of the year for Fibers, there's -- as we've talked about, I think extensively on the tow side, we have these annual contracts with customers, they have the right to vary what they buy quarter to quarter. And so we -- They're not that good at ratability.

So we had in the front half customers on the tow side not buying that much. But now to hit their minimums, they're going to step up their purchases in the back half of the year to hit what we consider sort of the low end of the volume bands that they have in their annual contract. So that's what's happening on that front. There, of course, is a little bit of risk around the Middle East.

That was an area that we -- our customers thought they were going to grow last year, didn't have that much success as we explained. They thought they were going to grow this year, not having as much success with all the Mid East disruption. Highly determined to keep growing and do what it takes. So there's a little variability on that front. But I would say the tow volumes on an annual basis will turn out by the time we're done to be sort of relatively stable to last year.

But that is a meaningful increase in tow purchase in the back half of the year, which we'll see a benefit of. On the textile side, it's a bit of the same thing. We thought that this year would be recovering from a very difficult year last year. We told you that we had about a $30 million headwind last year relative to '24 with the drop in the textile business, which was a combination of a weak market, made even weaker by tariffs, impacting demand and our price point going into China.

And that created a lot of sort of headwind for us into '25. We had a bunch of actions we were taking to improve it this year, but they have not so far been successful because the market just continues to be weak. So the first half was pretty challenging. The volumes were relatively low and a very tough comp to last year because volumes in textiles were high in the first half of last year. And they really came off in the back half of last year with the tariffs.

So, tough comp to last year. But we are seeing some success and we believe we'll build volume growth back in the back half of the year, which really would just get us to be even with last year. We were thinking we were going to get a $15 million tailwind this year, it turns out to be pretty much nothing relative to last year.

But it is good momentum on textiles into next year, in the winds that we're starting to sort of build on in the back half of this year. So that's a playout from this year on sort of what's going on there. Prices are not changing. They're pretty much consistent with what we thought from the beginning of the year. Energy costs are a headwind, so there's that spread compression there.

Utilizations are a headwind as we manage our inventory and capacity relative to sort of this demand environment this year. So those are all sort of factored into our point of view right now. When you get to next year, it's important to remember that a lot of this earnings decline from '24 to now is not actually tow, it's textiles, it's utilization hits about slow demand across the corporate stream that sort of flows into Fibers on the cellulosic stream, higher energy cost.

What we do think is plausible as we look at next year is there's a set of actions that we can take that are in our control to try and sort of stabilize this business. The demand drop isn't market related. It's -- The market's declining 1% this year, in a range of a typical 1% to 2%. The drops in demand have been destocking, have been some share shifts that were principally in '25.

And as we look at where we are right now, we have, by far, the lowest cost position in this industry, in the tow business, in the cellulosic business, and it's a very integrated advantage cost structure at our Kingsport site. And something about this stream is that it needs to run really full to have a positive effect on economics and overall site stability.

So we do see us recovering some of our market share that was sort of lost in balancing the stream in that sense. We have all these growth programs that start kicking in. So it's recovering textiles, I just mentioned. There's things like Aventa that are moving slowly, but picking up momentum. There'll be some additional volume for next year.

There's some other programs we're working on that we can't really talk about right now that could be quite material to the stream. So there's a lot going on right now on actions that we're taking to make sure that the business is as stable as possible next year relative to this year.

Vincent Andrews - *Morgan Stanley & Co Ltd - Equity Analyst*

Okay. Thanks for that. If I could just ask you, I think in AFP, maybe a little more so than the other segments, but there's been some share gains that have come on account of maybe some competitor dislocation, given the Middle East situation. What's your assumption in terms of the durability of those gains, whether it's for the back half of the year or into next?

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

I just want to clarify your question. Were you asking a volume question or a spread question?

Vincent Andrews - *Morgan Stanley & Co Ltd - Equity Analyst*

Volume question in terms of market share. You had some volume share gains. I think some competitors maybe didn't have the ability to produce to the same extent. And so you've picked up a little bit of share that way. I guess, is that correct? And then if so, what's your assumption on the durability of that?

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

Sure. So in Chemical Intermediates, I think our assumption where we've had some share gains is that it'll be relatively durable volume gains in the back half of the year. I mean, not gains, but we'll hold onto it in the back half of the year. There may be a few places where in our export markets we see some change of positions in where we're selling our material, but our volumes overall will hold up.

It's just a question of spread. So obviously there's a question around just how the back half of the year may moderate in spreads in Chemical Intermediates relative to the first half with all the dynamics going on, and it's anyone's guess at this point. It's truly a box of chocolates out there where every day it's a different story. And we could see things soften or we frankly could see things stay tight depending on what happens, especially in the next couple of weeks.

When it comes to the specialty side of the question, we expect to hold our market shares. We didn't see any market share losses in the first half of the year as we increased prices. We're not expecting any market share losses in the back half of the year with how we're managing our positions in our markets. And that's being disciplined and holding our price relatively well in that context. The places where we picked up share on the specialty side is pretty modest in Q2.

When we look at where we thought we could get a lot of share from companies being disrupted, that hasn't played out that much yet. Companies are really holding out and using whatever inventory they have to try and hope for lower prices in the future, both on the commodity and the specialty side. That's a big part of why markets on the commodity side are weakened, is everyone's leaning on inventory.

China's dumping inventory that they've built up over the last two years. Customers are using inventory to hold out for better market conditions. At some point, all that inventory is going to run out. And if it hasn't been replaced by a lot of stability in the world, in the Mid East in particular, things could get pretty tight here in the back half of the year.

So there's a wide spectrum of how this may play out. But right now, I'd say the teams are doing a phenomenal job of holding share, phenomenal job, great job of holding price. We're not, in the specialty side, picking up a lot of market share yet.

Vincent Andrews - *Morgan Stanley & Co Ltd - Equity Analyst*

Okay. Thank you very much.

Operator

Abigail Eberts, Wells Fargo.

Abigail Eberts - *Wells Fargo Securities LLC - Equity Analyst*

Just a quick question on your cost reduction targets of $125 million to $150 million. Can you just remind us how we should be thinking about that weighted across your segments?

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

Thanks for the question, Abigail. The Eastman team has done a tremendous job delivering on $125 million to $150 million net of inflation. I would also say I'm confident with what we've delivered here in the first half and actions implemented, that we will deliver the second half, and also shift our focus into 2027, and focused on, at a minimum, offsetting the inflation.

As we think about the split across the businesses, I would highlight Advanced Materials, as well as Chemical Intermediates as being the two largest benefactors and to a lesser extent, Fibers and Additives & Functional Products.

Abigail Eberts - *Wells Fargo Securities LLC - Equity Analyst*

Got it. Thank you.

Operator

John Roberts, Mizuho.

John Roberts - *Mizuho Securities USA LLC - Analyst*

Lots of new product discussion in the prepared remarks. Could you back it up to an overall company level, where are you on your innovation index, new products as a percent of sales, however you want to define it?

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

So first of all, good morning, John. It's good to talk to you. We're incredibly proud of our innovation growth model. And at times like this when markets are weak, I think we've proven we can create growth above underlying markets across the portfolio. And in particular, in the Advanced Materials segment where we've made the most investments.

So overall, we see, as you've noted, great growth in Tritan. We're picking up new growth in Tritan because Europe's put a ban on BPA that's driving more conversion into our product, which is great. We launched a new cosmetic product that's a recycle code one, and that's a big deal for the cosmetic industry. So we're seeing great growth there, including Renew content being in it.

You've got the HUD growth. You've got this new performance film strategy we just talked about in China that's given us significant broad addressable market growth that's been incredibly helpful. So there's a lot of things going on there, and AFP is not as significant, but still meaningful when it's ultra-high purity solvents for semiconductors, which is growing very high rates right now with the market at good margins.

You've got aviation continuing to roll, and we've got some new products coming out soon that are a big deal for the industry. Solus cellulosics for biodegradable polymer coatings on paper for cups and packaging and things like that. So there's a lot going on. We don't really provide a revenue percent of innovation as a public statistic, but it's roughly in the sort of mid-teen to 20% range when you look at it in the specialty world.

So we feel very good about the innovation curve that we're on. And we have a lot of metrics in which we measure it. It's just we don't make those all public.

John Roberts - *Mizuho Securities USA LLC - Analyst*

Okay. And then the Kingsport coal gasifier has been a pretty valuable asset here in this high oil price environment. When is the next major plan maintenance downtime for that unit?

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

We just did it. So we had a massive shutdown of that stream in Q2, which was a big headwind from Q1 to Q2 for Fibers as well as Chemical Intermediates in that sequential result. And what I'd say is it was a very large cost, so it will not repeat next year. So there'll be a tailwind next year relative to this year with that significant shutdown helping the whole cellulose stream.

Operator

Matthew DeYoe, Bank of America.

Matthew DeYoe - *Bank of America - Analyst*

Good morning, everyone. I have two, but I'll start with like -- can you just bridge us a bit on some of this shift from 2Q to 3Q with all these outages and then like strategic inventory management decisions, I guess, I'll call it that. And in general, it seems like you're able to destock your raw mats. And then conceptually, it seems like you're restocking at levels in 3Q that doesn't net penalize you versus the gains from better utilization rates.

Is that right? And like how much outage headwind was there ultimately in 2Q?

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

So Matt, thanks for the question. I think what Mark highlighted in the beginning, Advanced Materials is obviously we were making trade-offs with the timing of plants coming online, the Tritan facility that we highlighted, as well as the escalation of the impacts in the Middle East.

So what we -- Ultimately, we were able to bring down some finished goods inventory within our Advanced Materials business. That created a utilization headwind as we did that. And we did that to ultimately secure key feedstocks to enable us to deliver with confidence into the second half. Mark just highlighted that we had major turnarounds in Q2. As we think about from Q1 to Q2, that was around $40 million to $45 million headwind sequentially.

Our original guidance was we expected to benefit about $30 million sequentially, but with the Advanced Materials pulling some turnarounds into Q3, we now expect that to be, I'll call it, closer to the $10 million to $20 million for the overall company. So those are the big shifts as you think about shutdowns and turnarounds.

I would also say on a year-over-year basis, we will have substantial utilization benefits in the second half compared to last year as we had inventory corrections in Advanced Materials and across the company in the back half of last year. And you've heard Mark today talk about the strong demand outlook that we see here in Q3. And we'll continue to update you on that. But I think the big drivers are the turnarounds that I just described sequentially.

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

Yeah. Just when you want to locate it from a segment point of view, there's two different things that Willie described. There was the finished good impact on Advanced Materials. The cellulosic shutdown that we just talked about, that was very significant and actually a couple other smaller shutdowns, but the big impact there was in Fibers and in Chemical Intermediates. So it shows up in different places depending on which stock.

Matthew DeYoe - *Bank of America - Analyst*

That's helpful. And I guess, can you talk a little bit about volumes through the quarter? Really, even just if you want to bridge March into this. Right? There's a lot of discussions around panic buying downstream, not how that might have ebbed and flowed into June. And obviously, when we talk to investors, there's just concerns around customer destock in 2H, given what's happened more recently over the last few years. So how do you get confidence around this 2H volume profile, and were things trending better as you exited 2Q?

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

So great question. And certainly, volumes trended well through the quarter in Q2. Almost like a normal way, which is it sort of built from April through June. And in that sense, things actually felt quite normal despite all the chaos that surrounded us and what was going on. It is a very fair question and one that we constantly are debating internally around demand, especially after last year where you saw that build to get ahead of tariffs and then the decline in volumes in the back half.

So far, we're not seeing that same dynamic. So July orders are holding up well and on track to what we would expect and consistent with what you'd expect relative to Q2. So that's a good sign. When it comes to a lot of the buying in CI, it's a more dynamic question, with whatever's going on with the Strait.

But when it comes to the specialties, which I think is really where your question is centered, we're not seeing any end market demand declines or customers talking to us about that as a main concern. The customers are balancing two things at the same time, which I think is different than last year. Right now, because of what happened last year, they're very disciplined through February of this year in destocking inventory and getting inventories to be really low.

So when you got to March, obviously, there was concerns about access to raw materials, and so you saw some pickup in demand. But at the same time, worries and concerns around what could happen to the end market demand the back half of the year, I think, has kept a lot of discipline in everyone's mind about just how much inventory they want to build. And you can debate whether they're building inventory right now or using up inventory right now, hoping for lower prices.

So there's a lot of mixture going on that's very different than last year so far where they want to have inventory, but they also want to hold out for lower prices, maybe if the Strait normalizes and everything gets more stable. So you've got a lot of opposing forces where we don't think that people are sitting on significant inventories right now in this dynamic.

And if they were going to really destock, it could have started, frankly, in June when people were really optimistic in May about the Strait opening. And we didn't see that happen in June. So I think things are better positioned to be more stable. The wild card here, of course, is if things really get out of control in the Middle East, oil prices go up dramatically, you can have a global impact on consumer demand. That's not in our forecast, that sort of extreme scenario.

Matthew DeYoe - *Bank of America - Analyst*

Thanks for that.

Operator

Kevin McCarthy, VRP.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Thank you, and good morning. Mark, a question or two on your circular platform. I think you indicated in the prepared remarks that you expect sales to grow by $100 million or more this year. Can you comment on what a good contribution margin would be against that sales growth?

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

We're not going to talk about contribution margins on this business. What I can tell you is the revenue growth is attractive. The margins are certainly above company average when you think about this business. So it's a value and a mix upgrade to the company and to AM when you think about variable margins.

When I think about the business and its long-term EBITDA potential, we still very much feel we're on track for this first asset to get to $200 million EBITDA. We're not seeing any reasons why that's not going to happen. It's going to take longer than we'd like with the state of the current economy, but the value proposition, the contribution margins, we see as still very attractive.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Okay. Maybe related to that, my general impression is that the engineering team has done a great job and, if anything, you've proven out the capacity to be higher than originally expected. Obviously, the demand has trended as previously discussed, but is there a way to give us a sense of what the capacity utilization is? And I'm thinking back to your deal with Pepsi as well. How much headroom do you have to kind of load that asset moving forward?

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

So I think with what we've shared with you last year is we were around 50% utilization on the asset, and we've stepped that utilization up with the improvement in demand this year. We've also run tests to run the plant as hard as possible to understand what we think the effective capacity of the plant is, and feeling very confident we can get up to 100% in running the plant to support demand growth as it comes.

And then of course, as we said, there are targeted incremental capital projects to do in the plant to debottleneck it up to 130% of design capacity or 130,000 tons. So in that sense, I think we feel really good about where we're at and continue to gain more insights about how to optimize the performance of the plant and its cost structure.

When it comes to polymer, that's where the constraint is on the rPET side, because this plant was originally built for specialties. And as the market sort of weakened on the growth in specialties, we obviously flexed our polymer lines, which is a great advantage we have, is this flexibility to flex them from Tritan to copolyester to PET.

We took a Tritan line and flexed it to PET because we knew a new big line of Tritan was about to come on to serve the market that we were building. And that was a great way to balance it out. But there's still limits to what that PET capacity is. And so we're now looking at some other polymer lines that we can optimize to continue making rPET that have some additional capacity in this current market conditions.

And so that work is going on right now to enable us to keep growing the PET in a significant way next year. And then there's other things we're doing about our capital efficient model we'll talk about in future calls about how that can support more polymer growth.

Kevin McCarthy - *Vertical Research Partners LLC - Analyst*

Great. I appreciate the update.

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

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

Operator

Laurence Alexander, Jefferies.

Laurence Alexander - *Jefferies LLC - Analyst*

Can you touch on or give some detail on how you're thinking now about your M&A pipeline? How active is it? What are you seeing in terms of valuations? Are there strategic directions that you'd be open to considering? What's your positioning on that?

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

Well, first, what I'd say is, I think Eastman's had a great disciplined history when it comes to portfolio management. So there are times where we divested a bunch of underperforming businesses if you go far back in time. Then there was a period of time where we got out of these underperforming businesses and did large acquisitions like Solutia, Taminco, and bolt-ons that have been incredibly successful, and we did them in times when valuations were actually rational.

So those big acquisitions we paid roughly 9 times EBITDA for and have been huge value contributors to the company. And then we've been in a phase of optimizing and growing organic growth through innovation, which I think has been successful and proven itself in good times and bad. And we've also shown we're willing to continue to be very disciplined on divestments, right?

So when we had some other businesses underperforming, like Tires and Adhesives, we divested them as well as optimized our acetic acid footprint. So great discipline there in divesting things when it made sense, 10 times EBITDA. So I think we've got a good track record in M&A of being very successful with it, being very disciplined when things are not working well.

We definitely believe our company is at sort of minimum scale to be effective in our innovation and our balance sheet to support all the growth potential the company has. So as we look forward, we'll always be disciplined about businesses that are not performing and dealing with it. And we're always looking at M&A and considering it. Clearly, that M&A market has picked up activity this year, as you would expect in this market condition.

Valuations have improved to being more rational than they have been for quite some time. So we're out there considering all of our options, like I think every company in the industry is doing today. I think we can all acknowledge that we're probably going to see a lot of change over the next several years in this industry with all the dynamics that we face. But I'm incredibly confident that we'll remain disciplined and make good choices on both sides of the fence as those opportunities come up, but I'm not going to get into details on it.

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

Okay. Thanks again, everyone, for joining us. We appreciate you taking time to talk about Eastman this morning. Please have a great day.

Operator

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