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EDITED TRANSCRIPT

EMN.N - Eastman Chemical Co at Credit Suisse Basic Materials Conference

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PRESENTATION

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Great. Welcome, everyone, to Eastman Chemical, our fireside chat with them here at the Credit Suisse 35th Annual Specialties and Basics Conference. With us is Willie McLain, Chief Financial Officer of Eastman Chemical. Willie joined Eastman in 2000, and he served as the SVP and CFO since 2020.

Eastman is known as one of the most diversified of the major chemical firms here. They're known for their gasifier, chemicals. They're known for their cellulosics, a lot of specialty products here as well and some large acquisitions in their history, Solutia, Taminco, et cetera, here.

Willie, do you have any opening comments that you'd like to start with here before we get into the Q&A?

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

Sure, John. First of all, thank you. Glad to be here with you today at the conference. Earlier this morning, we issued a press release updating our guidance for Q3, highlighting the fact that our adjusted EPS would be approximately $2 for the quarter. Our previous guidance was expecting solid growth compared on a year-over-year basis, which was $2.46.

There's really 3 key factors as we think about the environment that we're in that are driving this. First I would highlight is volume and mix of our products. Second would be the energy cost, specifically natural gas, as we look at both here in the U.S. as well as in Europe. And finally, the strengthening of the dollar as we continue to see that gain strength on a relative basis just given the strength of the U.S. economy.

As I look at that, ultimately, the volume/mix we've seen since our earnings call, the supply chains here on the East Coast continue to be more of a challenge. Our key ports are in Savannah and Charleston, and that's been a challenge for our Advanced Materials business, specifically our specialty products, as we export those around the world.

Additionally, we've seen some of the end markets continue to be resilient. I would highlight agriculture as well as personal care. Those have been strong and in line with our guidance. And then we've even seen the auto and OEM be in line, even though it's still at very low levels overall.

The end markets that we highlighted on our conference call, being building and construction and consumer durables, have been the focus spot for us, and those have continued to weaken. I think those are also being compounded by the fact that the European economy as well as the Asian economy, being driven by the continued China lockdowns, have had an additional impact on those environments.

Also that you're seeing a level of destocking as we think through and prepare for different scenarios in those markets as well. So there's various compounding effects that we're seeing there. Additionally, as we think through the cost side of the equation, and actually, let me bring it back to -- we had our utility outage at our Kingsport site that occurred in late July.

We had factored that into our guidance, and that's taken a couple of weeks longer to get things back up and fully stabilized across the site. Those 3 factors represent about 60% of the change as we think about our earnings guidance. In addition to that, we've seen natural gas hit 14 year highs here in August. And as we transitioned into September, those rates closed out at very high levels.

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That impact alone is about $25 million to $30 million on the cost side. And in addition to that, we've seen another $10 million headwind when it comes to FX. That's bringing our FX headwind for the full year now to just above $50 million. So ultimately, we've had the 60% on the volume/mix, 40% related to energy and FX.

We're focused on the things that are in our control. As you would expect, we're continuing to increase prices where appropriate, whether that's through surcharges or continuing to recapture the inflation on a relative basis. Additionally, we're controlling our cost structure. And as you think about implementing the controls on discretionary spending as well as maintaining the head count that we've been able to achieve, all of that gives us confidence that we can manage through this.

Additionally, on the cash flow front, I think we've demonstrated we can be disciplined and deliver cash flow in just about any environment. This year, that's been compounded by the level of inflation, and we're doing everything that we can to turn that into cash, whether it's here in 2022 or some of that slips into 2023. At the end of the day, we're focused on our strategy, and that strategy is even more important in an environment that's slowing down or an environment that's in a recessionary.

This is what Eastman has demonstrated through our diverse end market exposure as well as our ability to use our innovation-driven growth model to make us a key partner with our customers and also to set us at the front of the megatrends that we're having as we invest in the circular economy. This will be important if there is a recession.

I think we all have to remember that typically, from, call it, a high earnings level or a peak to a trough, it's typically 3 quarters. With our strong balance sheet, our demonstrated ability to deliver cash, we're going to continue to invest in the circular investments and the circular economy.

We're on track to deliver the 3 commitments that we gave on our Q2 conference call with regards to the circular economy, meaning mechanical completion and startup in the first half of '23, with the first world-scale project; delivering on the key feedstock contracts by the end of the year for our France project; and having key brands signed up here within the quarter or prior to the announcement of our Q3 results related to a third project, which would be here in the U.S.

And with that, John, I'll turn it back to you for...

QUESTIONS AND ANSWERS

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

I wanted to maybe unpack your preannouncement a little bit here. We had Westlake Chemical in the room earlier. Their building materials portfolio, I think, was slowing, but it didn't sound maybe as significant as what you're seeing. Maybe talk a little bit about what products you have so that people understand what Eastman's building materials exposure is relative to, say, other companies.

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

Sure. I would say I'll break it into 2 pieces. So we have our Additives & Functional Products business, which has exposure to the architectural side. And that exposure is in North America, but also, importantly, in Europe and Asia.

In our Advanced Materials segment, our exposure to architectural and building and construction is primarily in interlayers that go into windows with the building codes in Europe. And those are the 2 primary exposures that I would say in addition to what we sell through our intermediates business.

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John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

More in the commercial building materials area than residential, let's say.

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

Yes. So what we've seen is the navigation of -- from COVID where lots of money was spent in the repaints and refinish. With the resurgence that we saw last year, the commercial buildings, the projects launched, those are coming to completion.

And I think what we're seeing here is a combination of factors: one, the European economy, I'll call it, is in a recession and getting weaker. Asia, we expected with the reopening that there would be a rebound, and we've seen continued lockdowns on that front.

And then here in the U.S., we've seen rising interest rates. And with the expectation of further rising interest rates, you're seeing consumers make choices on the residential front. And then on the commercial front, projects are being delayed or pushed out.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And then the Kingsport production goes through the ports of Savannah and Charleston you mentioned that you're seeing. I think investors have been focused more on the Houston congestion.

So maybe what are you seeing from Longview and whether that goes through Houston at all? And are things the same in Houston versus Savannah, Charleston, or something different going on here?

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

Yes. So what I would say, it is a little bit different. So in many cases, what you saw was all the traffic on the West Coast, and ultimately companies replanned, and they started shifting to the East Coast for this season. And as you've seen, the seasonal changes plus the consumer demand as people were trying to get ahead for the holidays, there's significant exposure on the East Coast, and we've seen that only worsen as we progress from July to August to today.

As you think about our operations in Texas and on the Gulf Coast, most of that's for North America versus being exported in our intermediates business. So we're less exposed to that, but we've seen the real backlog. And as you're seeing a backlog occur, while companies are choosing to make destocking and demand's declining, it's hard to actually attribute that across the 3 factors that are impacting volume/mix. But ultimately, we're planning for scenarios on the demand side.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

And then maybe just to stay with logistics. There have been some headlines recently about rail risk that's out there. Is that something you're concerned about?

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

Definitely concerned about just as you think about the broader U.S. economy and the implications that are rail strike, I call it, beyond the historical a few hours to something that could be a few days or longer, I think we should all be worried about something like that. And we're advocating obviously as others in the industry that there's a resolution, I think, that's important for the U.S. and the U.S. economy. We have things in our staging, as you would expect us to do. We have plans from an enterprise standpoint and are activating some of those plans proactively.

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John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And I don't want this whole meeting to be about the quarter and the shortfall, but maybe one last one. Your guidance was around the third quarter, but September sounded weak. And so we'll be entering the fourth quarter, it sounds like, at a lower level than people might have been expecting a month or 2 ago.

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

Yes. So September is always critical to Q3, and October is always critical to Q4. Ultimately, at this point, with the uncertainty of all the various factors that we've talked about, the level and the momentum will be from a lower point. And we'll probably give a little more detailed color on what we're seeing there on our October call.

But the macro environment, whether it's regionally or in some of the key end markets, the question is how much of this is -- that we're seeing is really destocking in anticipation of versus real demand? If that's true, then it may not be as, I'll call it, as big of a decline as we enter fourth quarter.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. Maybe to shift a little bit longer term. You mentioned the startup in the first quarter, the new recycled polyester PET business. It overshadows a little bit, I think, the efforts in cellulosics and in the waste -- mixed waste plastic going into gasifier. So maybe just spend -- people often forget that you have 3 initiatives actually in the circular plastics area.

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

Yes. Thanks, John. And again, I think since I highlighted the 3 projects on our polyester recycling, I'll hit the CRT, which is the renewal -- carbon renewal technology as well as cellulosics, which we're really excited about. In cellulosics, we have some products like Aventa, which ultimately can take, I'll call it, wood pulp as a starting product from a sustainably-managed forest, along with a feedstock from our carbon renewal technology, and basically have a biopolymer that is renewable and has recycled content. We're making advances.

So as you think about in the food industry, whether it's straws, whether it's the, I'll call it, the products that you're served in, ultimately, we have solutions for those, and we're gaining momentum. We're in test markets. And at our Innovation Day, we highlighted how this could be in addition to the $450 million of growth that we saw between now and 2025, 2026, that there could be an additional $200 million in this space.

And we're uniquely advantaged from technology from, I'll call it, leveraging the macro trends, and that we have an integrated site in Kingsport, Tennessee, where all of these technologies work in combination. So we have carbon renewal, polyester and cellulosic streams, all that come together to there. As we think about our specialty businesses, typically, it's the power of bringing those 3 together that uniquely gives an advantage relative to any peer in the world.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

And then just to come back to the polyester strategy and the PET strategy. It's slightly different for specialty PET copolyesters from bottle resin PET. So maybe explain a little bit about the different strategies between those 2.

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

I'd like to say there's 2 clear business models, and neither of those is about being in the PET business. So as you think about our Advanced Materials and our Specialty Plastics business, there's been a decade of growth as we've, I'll call it, invented the monomers and the Tritan product that has chemical resistance, heat resistance and clarity. We've developed that into a $1 billion business.

What we're doing is taking that business and that business model and now giving it a circular feedstock. We're taking waste out of landfills, out of our garbage, and we're using that as feedstock. The carbon density and intensity of a plastic bottle is better than that of fossil fuels in many cases because it's already been processed. We're taking that and now adding a new dimension to the polyester triangle.

I gave you the 3 that made Tritan successful. Now we're adding the new one, which is -- actually is from recycled content. And we believe that, that's going to sell out our third world-scale facility of Tritan faster than the first, which was -- the second was faster than that, and this one will be even faster because of that new dimension, John.

The other business model that's important is we're providing a solution. That solution is [to brands]. That solution is for each of us as consumers, which is we will provide recycled and circular avenue for large packaging consumers or brands so that they can meet their sustainability goals, and they can meet those sustainability goals now with technology that's readily available and proven.

That's the differentiating factor, I believe, John, that's going to set Eastman apart as we invest not only in the first project that's coming online in the next 6 to 9 months, but as we announced project 2 and then build on a third project as well.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

What's the timing on the second U.S. site that you're looking at?

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

Again, on our conference call, we committed to making progress on that here in Q3. We're still, we believe, on track to do that in advance of our earnings call.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And then how will the sourcing for waste plastic be handled? So again, that can be a constraint sometimes in some of these recycling businesses.

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

In the U.S., I would say we've made substantial progress from the site that's starting up. We already have the supply chain working, and we even have some of the processes for the segregation of the products and processing of those feedstocks in place. We also have roughly 75% or a little more of that solidified and procured for the first project.

As you think about Europe and France, in particular, the infrastructure is much more advanced than we have here in the U.S. And that's actually what we need to ultimately happen in the U.S. and the rest of the world is to gain that alignment from the brands to the consumers back to the waste industry such that all of the products that's going into landfill waste through the waterways ultimately end back in a full and true circle. We expect to have commitment signed for our France facility by the end of the year.

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John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

And then just one last question on the polyester PET strategy. But many of the global PET players have a history of polyester fiber as well. And I'm sure the textile customers like Nike and so forth, the apparel makers, are interested in recycled content as well. Do you think Eastman eventually gets back towards polyester fiber as well? You've moved to cellulosic fiber. You're moving to PET. And does polyester fiber play a role here?

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

We do expect that as we think about our carbon renewal technology and our ability to take recycled content back through our gasifiers, not only our existing gasifiers, but also as we continue to look at other technologies that we think can help us be differentiated, making those types of investments so that the true intermediates and raw materials for both textile fibers would also be a true circular economy.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. The circular strategy kind of overshadows, I think, the broader innovation strategy that's going on at Eastman. Talk about maybe what the total percent of sales from products within the past 5 years, or however you want to talk about your innovation index, and what are the biggest things outside of circular plastics?

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

Yes. So as I think about the biggest things outside of the circular and circular economy, it would definitely be as we think about the cellulosics itself. So without the circular aspect is the innovations and the growth that we have there. And as I mentioned, it's products like Aventa.

We're still also investing in the coating space. As we think about the monomer that made our Tritan so successful, we're investing into that, into can coatings and also automotive coatings as you -- as we have a product like Tetrashield, and that being a key innovation, the innovation cycle for those is much longer.

In many cases, they have to go through, I'll call it, testing and it's time that's in the test, but we're making progress. And it's again linked back to megatrends, the megatrend of BPA as we also think about others that are out there as products are being phased out. Typically, a common theme is Eastman has solutions or we have technologies that can bridge and be a solution when there are gaps.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. You still have the Chemical Intermediates business. How's that doing in the quarter? So oftentimes, that's gone better when specialties have gone worse. So the diversity plays out. And talk a little bit about the volatility of that business relative to historical, because we've had tremendous volatility in the past when it was more exposed to propane, when it was more exposed to chemical propylene purchases. So you've made some changes there, and now you have another change coming to have ethylene propylene flexibility there.

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

Yes. So one thing that I would highlight as we start is we've got a strong functional amines that's exposed to the ag industry. We've also got specialty plasticizers, and that's a growing portion of that business. And while it may be greater than 1/3 of the revenue, it's an even more important on the stability of the earnings profile of that segment.

So it's raising the bar, and it's also increasing the stability over the long term as we think about normalization. Also, as we look at olefins versus acetyls, on the olefin side, what we've seen is -- obviously, you guys follow the margins of propane and ethane to ethylene as well as propylene. Those have been compressed as we've gone through this quarter.

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I would highlight the investments that we've made in being able to process refinery grade propylene and the polymer grade. Those margins have held up quite well here in Q3. But as demand implications start to unfold, that puts more pressure, and some of those higher spot margins that we're able to achieve in Q2 are definitely normalizing here in Q3. Broadly, I would say it's in line with our expectations that we had at the end of the quarter, at the end of July. Some a little better, some a little worse.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

And then the new ethylene flex unit?

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

Again, as Mark explained that, that's probably a 2024 to 2025 as it comes online. We have to time those investments to be in sequence with our traditional cracker turnarounds, which typically happen every 5 to 6 years for our crackers.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

It's been a while, Willie, since Eastman has made a significant acquisition that's there. So I mentioned Solutia and Taminco on my introduction. What's the capital deployment strategy? And does M&A fit into this at all?

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

I would say we are laser-focused on our investments in the circular economy. Definitely, as you think about slowdowns and recession potential, you've got to even narrow that focus. What we've said is we will continue to look at bolt-ons as we think about advancing Advanced Materials, but also growing that more focused AFP business as well.

So to me right now, in the short term, it is that focus on our core strategy of being innovative and investing in our technologies and our programs there. As we think about capital, that means that we'll be investing more in the CapEx line. And then again, if there's cash as we look at bolt-ons, we'll return that to shareholders both through our growing dividend that we've been able to grow as well as share buybacks. And again, we're still on track for the $1 billion of share repurchases this year.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

And how is the quarter in terms of share repurchase activity?

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

It's in line with how I guided, which is, ultimately, we had about $250 million for the back 5 months, and you can think about that pro rata across the month.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

All right. And does the strategy for building out the recycled PET business impact your ability to buy back stock over, let's say, 2022 and going into 2023?

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

As we think about 2022, no, I would say there's no significant impacts on our ability to buy back shares. As I think about ultimately the inflation that we've had this year is another -- we thought 2021 was unprecedented with the recovery. Actually, the inflation that we've seen and expect to see on the full year will be greater in 2022 than it was in 2021. So that's impacting the cash flow levels.

Here through the first 9 months, our working capital will probably be $500 million higher. We're looking at the actions that we can do, whether that turns into cash this year or next year, but we're driving the disciplined approaches that we've demonstrated over the last 5 to 6 years. That will then play out.

We're not going to keep cash idle. We're going to progress our circular investments over the time horizon, and then we'll be disciplined in returning that cash to shareholders in the way that creates the most value.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

I'm sure if you hadn't done the divestments, we'd be talking about the rubber chemical business and the adhesives business weakening in the current period. Talk about the recession resiliency of the portfolio perhaps today with some of the big divestments you've made versus, say, previous economic cycles.

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

I would highlight, as we think about the resiliency that we saw during the COVID environment, think about that on a relative basis, but also think about it, even the financial crisis, to what we have become today and what we're going to become in the future. But again, those -- timing of the divestitures, I think, played out well. They were also part or significant parts of the decline that we saw from '19 to '20. And again, we wish those companies success as they're trying to navigate this environment.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. Any other noncore assets do you think in the portfolio, maybe smaller things?

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

I would say there's nothing that I would point out to the audience today. Ultimately, our commitment is we're going to be disciplined. And as we continue to make successes on our circular and the innovation strategy that we have for our specialty businesses, we'll continue to be disciplined as we look to maximize the returns to our shareholders.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. The new Inflation Reduction Act had some significant credits for carbon capture. So you've got an ethylene cracker complex in Longview and you've got a gasifier in Kingsport. Is there anything in there that would cause you to change your sustainability investments?

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

I would say there's nothing that would cause us to change them. I think, ultimately, what it's doing is, okay, how do we prioritize our investments? Also as we think about the reduction act -- I won't say the word inflation because it's hard for me to put that into [phrase].

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But as you think about the act, there also could be benefits to the circular economy and, ultimately, the solutions that we're providing there, and we're looking at those programs. And again, we'll maximize the potential for our shareholders and stakeholders broadly.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

I waited until late in the conversation here, but you don't have a big manufacturing footprint outside the U.S., which is probably really good right now. It's not being operated in China, not operating in Europe in a big way that's there. But are there -- is the conditions that are going on in Europe and in China impacting the business in a meaningful way? You export into those markets, obviously.

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

So one of the challenges, obviously, we highlighted is the supply chain aspect of when you have large assets in the U.S. or your asset base. I would say those challenges or opportunities are far outweighed by the position, the stability that we have from a, I'll call it, an energy footprint. As we think about where investments are going on a regional basis, I think asset structures and those regionalized economies are going to start to continue to emerge.

And I think we're well positioned for that as the U.S. has looked at also for investments, whether it's in the chip industry and other industries going forward. I think those are all positive. And on a relative basis, we'll see how long it takes the energy to play out in Europe, but it's also having effects into Asia with naphtha and just the asset positions. And with logistics, there's -- the labor arbitrage has closed, I think, substantially.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

So do you see yourself staying U.S.-centric in terms of your manufacturing strategy? And maybe just a wrinkle on that, you're going to put a world-scale facility in France for the PET business. Will that be an anchor facility maybe for some of the other businesses? So would specialty copolyesters eventually end up with a facility in Europe as well like that?

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

What I would say is, ultimately, with the France project, there is integration in mind for our specialty plastics. I would not say beyond the specialty plastics because it's so integrated into that business model. As you think about asset footprints, also some of our more specialty businesses, like our films businesses, are less asset-intensive. So as you think about the intensity of your assets, that can also open up the broader geographies for investment.

We have, again, our films business and paint protection and window film. It's China. Asia is a very big market. Having assets there could potentially make sense relative to other positions. Intermediates, we have our bases that we're going to build upon. That's here in the U.S.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

I did mention -- did not mention the Fibers business as part of your third quarter update that's there. So it's normally stable. I think can people assume that it continues to be a stable business?

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

What I would say in Q3 specifically is the higher natural gas and some of the operations will have an impact based on our previous guidance. But as I think about that business more broadly, one, there's reduced capacity as we're reducing it for textiles as others are making strategic assets. Ultimately, I think as we think about the margins and how those have declined, we're focused on improving those margins as we go into 2023.

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John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Some ESG investors who really would like to look at Eastman because of the circular plastics play need to have the cigarette filter fiber business under 10% of the company's sales. When do you think you get there? Or is that an objective to get there?

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

I would say we're already there today. We're probably 8% or less. And the goal is, over time, that number will be both through the growth of the specialties, but also as we switch assets over to the textiles. That's occurring as we speak.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

We just have a couple of minutes left. Any questions from the audience here before we close it out? Chris, could you step to the mic? Or I'll repeat it. If you want to just ask it, I'll repeat it.

Unidentified Analyst

Talk a little bit about free cash flow and how your working capital is going to play.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

The question is an update on working capital and free cash flow for the rest of the year.

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

Chris, we're still working through that, as you expect. As we think about the $500 million that's built traditionally with seasonality, we would get and recover a large portion of that. It could be as much as half naturally. So we would expect that to occur as we go into Q4 seasonally. Beyond that, to your point, we're working through actions of inventory management, also on our cash conversion cycle more broadly with payables and accounts receivable.

We're working our way towards that. But as you think about our operating cash flow at the beginning of the year, pre-inflation, was $1.6 billion. We reduced that to $1.5 billion. Now you've got a combination of inflation as well as the earnings impact that we're talking about earlier today. Those will have an impact. We'll provide an update on our expectations on the Q3 call.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

Any other question from the audience? Another one here?

Unidentified Analyst

The Europeans with their Green Deal initiative and the infrastructure that's built to recycle the plastics get to a very high level. Where would you see the U.S. getting to eventually with the quantity or percentage recycled? Because that's a great free kick. You should get it at feedstock that's a bit lower costing, absolutely.

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John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

In the next 20 seconds, that may be a hard one to ask, Craig. Yes. So the question was on getting the U.S. circular plastics business somewhat similar to Europe, where they're much further ahead of us.

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

So what I would say is there's lots of collaboration that's going to take place. The opportunity, as we think about packaging, is large. For Eastman to be successful in this, we think there's momentum to do the first plant in the U.S., the second plant in the U.S. Going to 3 or 5 plants, it will take lot of infrastructure.

It will take regulation change and bringing all the key stakeholders together. But we're going to show proof of that, of what it can do and it can be, in 2023 with our facility. To me, part of that is bringing it and making it a reality that, again, gets the conviction for those stakeholders to come together.

John Ezekiel E. Roberts - *Crédit Suisse AG, Research Division - Research Analyst*

All right. Thank you. If anyone has any further questions, you can reach Greg Riddle in Investor Relations, griddle@eastman.com or john.roberts@creditsuisse.com. Thanks all.

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