Eastman Q4 & FY 2021 Financial Results Prepared Remarks

January 27, 2022

Slides 1 and 2:

This document is the CEO's and CFO's prepared remarks for Eastman Chemical Company's fourth-quarter and full-year 2021 financial results. This is to be read with the fourth-quarter and full-year 2021 financial results news release and the slides detailing our fourth-quarter and full-year financial results, both of which were publicly issued and posted on our website (investors.eastman.com) after the close of NYSE trading on January 27, 2022. On January 28, 2022, at 8:00 a.m. ET, Mark Costa, Board Chair and CEO, and Willie McLain, Senior Vice President and CFO, will host a public question-and-answer session with industry analysts that anyone can listen to on our website or by telephone as detailed in our financial results news release. This document, the accompanying slides, and the call/webcast that follows include certain forward-looking statements concerning our plans and expectations. Certain risks and uncertainties that may cause actual results to be different than our plans and expectations are or will be detailed in the company's fourth-quarter and full-year 2021 financial results news release, in the remarks in this document and in the accompanying slides, and during the call, and in our filings with the Securities and Exchange Commission, including the Form 10-Q filed for third quarter 2021 and the Form 10-K to be filed for full-year 2021. All earnings referenced in this presentation, the accompanying slides, and the call/webcast exclude certain non-core 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 fourth-quarter and full-year 2021 financial results news release.

Slide 3 – 2021 and other recent highlights

2021 was an incredibly challenging yet rewarding year for Eastman. We have many successes to celebrate, and we've laid out an ambitious plan for our future. Before moving into the financial results for the year and our outlook for 2022, there are a number of achievements to highlight.

In the face of unprecedented supply disruptions, logistics challenges, labor shortages, COVID variants, and rapid, broad-based inflation, the Eastman team delivered all-time record revenue and adjusted EPS and is positioned to build on this growth in 2022. This robust performance is a testament to our innovative portfolio of specialty products and also our discipline to convert strong topline growth to the bottom line. We also closed New Business Revenue from innovation of approximately $600 million, with meaningful contributions coming from products across the portfolio. Looking ahead, we expect the momentum from our innovation programs to further accelerate as we continue to advance our leadership position in the circular economy. In fact, leading brands continue to adopt our sustainable product offerings as consumers demand products with an improved environmental footprint. Moreover, we have made meaningful progress in our plans to build multiple world-scale material-to-material molecular recycling facilities. The first of these plants, located at our world headquarters in Kingsport, TN, is less than 12 months from mechanical completion—reinforcing that we are poised to make a significant contribution to the plastic waste and climate crises now.

We also demonstrated strong commercial excellence by moving specialty product pricing higher to catch up to incredibly rapid inflation by first quarter 2022. This is a true testament to our value proposition. We also maintained our focus on our operations transformation program that improved our ability to compete.

With the successful divestiture of the tire additives business in the fourth quarter of 2021, we also were able to return approximately $1.4 billion to stockholders through share repurchases and our dividend. In the fourth quarter alone, share repurchases totaled $710 million, with help from the $500 million accelerated share repurchase program. We also anticipate the divestiture of the adhesives resins product lines in the first quarter of 2022 and we remain committed to repurchasing shares to at least neutralize the impact of the divested earnings.

And finally, Fortune Magazine named Eastman to its 2021 *Change the World* list for our leadership in circular economy, and we were the only materials company to be selected. One of the key factors Fortune uses to evaluate companies is "measurable social impact," which carries extra weight in the magazine's evaluations. In determining the list, Fortune editors and writers use that factor to consider "the reach, nature and durability of the company's impact on one or more specific societal problems." And this recognition is not the only one. We are honored to be recognized by a number of organizations for our leadership in driving growth through sustainability. We are proud of these recognitions and look to continue our leadership in the circular economy, which is opening up new markets for our products.

These great accomplishments, made possible by the incredibly dedicated and talented Eastman employees around the world, are evidence of Eastman's leading position as a world-class material solutions provider and give us confidence that we will keep delivering exceptional results for all of our stakeholders. Each Eastman team member made a meaningful contribution in helping to navigate through a difficult operating environment. And on top of delivering excellent results, Eastman employees accelerated growth of our specialty products and built upon our leading position in our circular economy growth platforms for both polyester and cellulosic biopolymers.

Slide 4 – Building the world's largest molecular recycling facility in France

A few weeks ago, we announced that we plan to build the world's largest material-to-material molecular recycling facility in France. We are very excited about this important milestone announced with President Macron at the Elyseé Palace as part of the "Choose France" event. The facility, which will process up to 160 KMT of hard-to-recycle plastic waste annually, is expected to be operational in 2025. As part of the facility, we plan to build a mixed plastic processing unit that will prepare the plastic waste for processing, a methanolysis unit for depolymerization and purification, and polymer lines to create a broad portfolio of high-quality materials for specialty, packaging, and textile applications. Given the inherent efficiencies of the technology and the renewable energy sources available in France, materials from this project will be produced with up to 80 percent less greenhouse gas emissions than materials produced with fossil feedstocks. Eastman also plans to establish an innovation center for molecular recycling and sustainable product development that would assist France in its effort to sustain a leadership role in the circular economy.

Our planned investment is being endorsed by leading global brands, including LVMH Beauty, L'Oréal, Danone, The Estée Lauder Companies, Clarins, and Procter & Gamble, who share our commitment to solving the world's plastic waste problem and view molecular recycling as a pivotal tool for achieving circularity. We expect to announce additional brands that will participate in the project throughout the year.

In the first phase of the project, capital expenditures are expected to be between $600 to $800 million, consistent with the project overview outlined at our December 2021 Innovation Day. Consistent with our expectations for this circular model, we expect the ROIC for the project in France to be greater than 12 percent. Once other key milestones are reached, we expect to break ground in 2023.

Over time, we have the potential to increase the mix of specialty products and expand the capacity of the facility, both of which would lead to a total capital investment of up to $1 billion. In any scenario, our expectations for returns for this project remain anchored at greater than 12 percent.

We look forward to achieving additional milestones throughout the year including agreements related to sourcing the plastic waste feedstocks, completing commercial agreements, and finalizing the site location decision.

Slide 5 – Corporate

Compared to fourth quarter 2020, sales revenue increased 23 percent led by 20 percent higher pricing. Sales volume/mix was up 4 percent led by strong growth in durables, medical and pharma, and building and construction. Adjusted EBIT increased as favorable product mix was mostly offset by lower spreads as prices were catching up to higher raw material, energy, and distribution costs. Higher manufacturing maintenance costs and continued investment in growth also unfavorably impacted EBIT.

For the full year, revenue increased 24 percent with an increase in all segments. The strong topline growth was due to 15 percent higher selling prices and 8 percent higher sales volume/mix. Higher selling prices were due to strong end-market demand as the global economy recovered from the COVID-19 pandemic and significantly higher raw material, energy, and distribution prices. Higher sales volume/mix was due to innovation and market development initiatives and improving demand in end markets including durables, building and construction, and transportation. We continue to significantly outperform our underlying markets, including transportation, despite ongoing challenges with auto OEM component shortages. Adjusted EBIT increased due to more favorable product mix resulting from increased sales of specialty products and higher sales volume, partially offset by higher manufacturing maintenance costs, both planned and unplanned, and continued investment in growth.

Slide 6 –Advanced Materials

While fourth-quarter results were challenged by prices catching up to significantly increasing raw material, energy and distribution costs as well as higher maintenance costs, Advanced Materials had an outstanding year. Annual sales revenue and adjusted EBIT were both records, with adjusted EBIT increasing almost 20 percent. The segment continues to demonstrate the power of innovation and market development with growth faster than their end markets and improving mix due to growth in specialty product lines. Looking at fourth quarter, sales increased 15 percent due to 8 percent higher volume/mix and 7 percent higher selling prices. Strong growth across key end markets including durables, medical and pharma, and building and construction contributed to favorable product mix. Adjusted EBIT decreased as improved product mix was more than offset by lower spreads as a strong 7 percent price increase was catching up to higher raw material, energy, and distribution costs, including continued high levels of air freight of materials due to supply chain issues. As discussed in the third quarter, we also pulled forward some manufacturing shutdowns to increase our capacity as we head into 2022, where very strong demand is expected. The impact of these shutdowns, including lost volume, totaled approximately $25 million.

For the full year, revenue increased 20 percent due to strong growth across all the key end markets, including transportation, where revenue grew 21 percent. This strong transportation growth was significantly above auto sales and builds for the year, a testament to continued mix upgrade fueled by innovative product offerings and strong market development in the performance films and advanced interlayer product lines. Specialty plastics also delivered an excellent year, with revenue up 21 percent driven by double-digit volume/mix growth and strong pricing. Adjusted EBIT increased by almost 20 percent due to significantly improved product mix and higher volumes, partially offset by lower spreads, where strong pricing lagged significantly higher raw material, energy, and distribution costs. Higher manufacturing maintenance costs and continued investment in growth also unfavorably impacted EBIT.

Looking ahead to first quarter 2022, we expect several factors will result in improved earnings compared to the fourth quarter. First, we expect to continue to deliver strong volume growth and mix improvement as demand for our products remains strong and our innovation continues to drive above-market growth. We also expect pricing we have implemented will result in margin recovery. And we expect the higher costs and lost volume from our shutdowns in the fourth quarter will not repeat. All three of these factors are expected to lead to a strong sequential increase in earnings, and we expect first quarter 2022 adjusted EBIT to be up on a year-over-year basis.

For the full year, we continue to expect that price increases we have achieved in response to unprecedented levels of inflation in 2021 will result in margin recovery of greater than $100 million for Advanced Materials in 2022. In addition, we expect Advanced Materials to deliver strong volume growth and mix improvement consistent with how this segment has delivered over the last decade. For example, we project a modest improvement in auto OEM builds in the second half of 2022, but we expect to significantly outperform the recovery due to continued strong innovation and market development. This volume growth will be somewhat offset by our continued investment in growth. All in, we expect Advanced Materials will deliver significant growth when you combine adjusted EBIT growth of approximately 10 percent over 2021 levels, plus recovering greater than $100 million of spread, leading to adjusted EBIT of approximately $700 million for full-year 2022.

Slide 7 –Additives & Functional Products

Compared to the fourth quarter 2020, revenue increased 17 percent due to 18 percent higher selling prices. Higher selling prices were due to significantly higher raw material, energy, and distribution prices. Cost-pass-through contracts represented just over one-third of the pricing impact in the fourth quarter. Volume/mix, which includes the impact of the divested tires additives product lines, was flat. Excluding both tire additives and adhesives resins businesses, volume/mix increased on a proforma basis due to strong demand across key end markets including building and construction, feed additives, and aviation. Adjusted EBIT declined as higher prices were catching up to higher raw material, energy, and distribution costs. The divestiture of the tire additives business also reduced EBIT.

For the full year, revenue increased 22 percent due to 12 percent higher selling prices and 9 percent higher volume/mix. Higher selling prices were due to higher raw material, energy, and distribution prices. Cost-pass-through contracts represented approximately 40 percent of the price increase. Higher sales volume/mix was led by double-digit gains in coatings additives and specialty fluids due to strengthened demand and improved market conditions for products sold in transportation, building and construction, and durables end markets, resulting in a more favorable product mix. Adjusted EBIT increased as higher sales volume and improved product mix was partially offset by lower spreads as higher selling prices were catching up to higher raw material, energy, and distribution costs. Higher manufacturing maintenance costs and continued investment in growth also unfavorably impacted EBIT.

In first quarter 2022, we expect strong year-over-year pricing reflecting the momentum of the 18 percent comparison in the fourth quarter to result in margin recovery. We also expect continued strong demand across key end markets including personal care and building and construction, as well as a normal seasonal improvement in volume. All in, we expect a strong sequential increase in earnings. On a proforma basis, excluding earnings from both tire additives and adhesives resins product lines, we expect to grow adjusted EBIT approximately 10 percent compared to first quarter 2021 EBIT of approximately $110 million. Revenue and EBIT from the adhesives resins and tire additives product lines will be reported in the Corporate 'Other' in full-year 2022.

For the full year, we expect continued strong demand across our key end markets, including building and construction, feed additives, and personal care, as well as continued recovery in aviation and modestly positive volumes in transportation. We also expect to continue to benefit from improved pricing, which is expected to be fully caught up with raw materials early in 2022. We also expect to benefit from lower manufacturing maintenance costs. All in, we expect Additives & Functional Products to grow adjusted EBIT greater than 10 percent compared with 2021 proforma EBIT of approximately $450 million, which excludes earnings from the tire additives and adhesives resins product lines.

Slide 8 – Fibers

Compared to the fourth quarter 2020, revenue increased 14 percent due to 13 percent higher sales volume/mix primarily driven by continued strong growth of textile products, including Naia™ and Naia™ Renew. Our innovation and market development initiatives, coupled with unique sustainable biopolymer product offerings, are driving strong results in key niche applications like women's wear. The continued recovery of the underlying textile end market from the impact of the COVID-19 pandemic also contributed to positive sales volume/mix. EBIT decreased due to higher sales volume being more than offset by higher raw material, energy, and distribution costs, combined with limited near-term pricing flexibility in acetate tow agreements and continued investment in growth.

For the full year, revenue increased 8 percent due to 7 percent higher volume/mix primarily due to strong growth of textile products. Acetate tow volume was relatively stable. EBIT decreased due to higher sales volume being more than offset by higher raw material, energy, and distribution costs, combined with limited near-term pricing flexibility in acetate tow agreements. Higher manufacturing maintenance costs and continued investment in growth also unfavorably impacted EBIT.

In the first quarter, we expect to build upon strong momentum in our textile business. We also expect to benefit from price increases that have been implemented for approximately 50 percent of the revenue in the Fibers segment where contracts allowed changes. As we recover spreads in this business, we expect to show a solid sequential increase in adjusted EBIT, but not quite back to first-quarter 2021 levels as volumes were somewhat higher than normal in first quarter 2021.

Similarly, as we look at the full year, we expect price increases to substantially recover spreads, which were challenged in the back half of 2021. We also expect continued strong growth from our textiles business, partially offset by a decline in acetate tow volumes, consistent with the overall market. We also expect to benefit from lower manufacturing maintenance costs. All in, we expect adjusted EBIT growth of greater than 10 percent in 2022 as the business catches up to higher raw material, energy, and distribution costs from 2021.

Slide 9 – Chemical Intermediates

Compared to the fourth quarter 2020, revenue increased 46 percent due to 47 percent higher selling prices as raw material, energy, and distribution prices remained elevated. Improved product mix, due to increased sales of functional amines in the agricultural end market and specialty plasticizers, was offset by lower sale volume due to the closure of our Singapore manufacturing facility. Adjusted EBIT increased due to higher spreads and more favorable product mix, partially offset by higher manufacturing maintenance costs.

For the full year, revenue increased 36 percent due to 38 percent higher selling prices due to higher raw material, energy, and distribution prices. Volume/mix was unfavorable as an improvement in product mix was more than offset by a decline in sales volume. More favorable product mix was due to increased sales of functional amines in the agricultural end market and specialty plasticizers. Volume growth in derivatives was more than offset by the closure of our Singapore manufacturing facility and lost volumes from higher manufacturing maintenance shutdowns. Adjusted EBIT increased as higher spreads and more favorable product mix was partially offset by higher operating costs, including costs from higher planned manufacturing maintenance costs and repairs resulting from winter storm Uri.

In the first quarter 2022, we expect continued strong end-market demand keeping spreads at levels similar to the fourth quarter. We also expect a modest sequential improvement in volume/mix led by seasonality in the functional amines business. Finally, we expect a modest sequential improvement in manufacturing maintenance costs. Putting these factors together, we expect first-quarter 2022 adjusted EBIT to increase sequentially from fourth-quarter levels.

For the full year, we continue to expect Chemical Intermediates to be substantially above normalized EBIT of approximately $300 million due to three key factors. First, strong mix improvement within the segment, consisting of increased sales of high-value functional amines and specialty plasticizers that is expected to continue as demand remains strong. Second, we expect strong acetyls growth from higher volume due to increased capacity after a large manufacturing shutdown in 2021 and a tight market for acetic anhydride in North America, which is the most significant component of our acetyls business. And third, we expect a meaningful tailwind from lower manufacturing maintenance costs. Offsetting these positive factors is the expected normalization of spreads, which we are modeling to be more in the back half of the year as a base case.

Slide 10 – FY2021 cash flow and other financial highlights

We enter 2022 in a position of tremendous financial strength. To start, Eastman continues to be an excellent generator of cash. Operating cash flow was over $1.6 billion and 2021 marked five consecutive years of free cash flow over $1 billion, a significant result which was delivered across a span of years that ranged from normal, to recessionary, to extremely inflationary. In fact, our working capital teams did an excellent job mitigating significant inflation this year, and we plan to leverage recent investment through our operations transformation to sustain our cash conversion cycle at current low levels as we move through 2022.

We also continue to put our cash to work in a disciplined manner. We have increased our dividend for 12 consecutive years, and our dividend remains a bedrock principle within our capital allocation philosophy. We also repurchased $1 billion of shares in 2021, with $710 million in the fourth quarter sourced from both free cash flow and tire additives divestiture proceeds. As we look forward, we expect another year of strong operating cash flow of greater than $1.6 billion. We expect that the combination of divestiture proceeds, net of taxes, and operating cash flow, net of capital expenditures and our dividend, will total approximately $1.4 billion. We plan to deploy this $1.4 billion of strategic cash to the combination of bolt-on M&A and share repurchases in 2022.

Enabling this strong shareholder return philosophy is our healthy balance sheet, where net debt to adjusted EBITDA now stands at less than 2.2x. Moving forward, we don't expect to delever further, shifting more cash toward organic growth and shareholder returns. Our full-year 2021 adjusted effective tax rate was 15 percent in 2021.

We anticipate the divestiture of the adhesives resins business in the first quarter 2022. Together with tire additives, we expect proceeds from both of these transactions to total $1.8 billion, with divested EBITDA of approximately $175 million.

For more detail on full-year 2022 modeling items, planned manufacturing maintenance shutdown costs, and other assumptions, please refer to the appendix of our fourth-quarter and full-year 2021 presentation.

Slide 11 – Full-year 2022 guidance

We remain confident in the outlook for 2022 that we gave back in October of 2021. We continue to project adjusted EPS to be between $9.50 and $10.

Several tailwinds are driving our strong expectations moving into this year. First, innovation and market development are expected to drive organic growth above our underlying end markets consistent with what we do every year. Across key end markets including consumer durables, building and construction, and transportation, we expect our innovative portfolio of specialty products to deliver strong topline and bottom-line growth. Second, in the face of incredibly high levels of inflation across our portfolio, our specialty businesses did an excellent job raising prices by the end of 2021. As we progress throughout 2022, we expect a meaningful tailwind from prices catching up to higher raw material, energy, and distribution costs. To be clear, we are assuming that these costs will remain at approximately fourth-quarter 2021 levels, which will result in these costs being higher in full-year 2022 compared to full-year 2021. And we are projecting that the price increases we've already achieved at the end of 2021 will be sufficient to offset these higher costs plus substantially recover our spreads. Third, the combination of planned manufacturing maintenance shutdown costs and operational disruption costs are expected to be a tailwind of approximately $75 million in 2022. We also expect to benefit from a continued disciplined approach to costs underpinned by our operation transformation program and a return to normalized variable compensation costs. And finally, we will put our cash to work as we invest in organic growth, pursue bolt-on acquisitions, and repurchase shares. Operating cash flow is expected to be greater than $1.6 billion, similar to 2021 levels, a strong result in the face of approximately $175 million of divested EBITDA. Working capital is expected to be about neutral in 2022 compared to 2021. We also expect to deploy strategic cash of approximately $1.4 billion through the combination of attractive bolt-on M&A and share repurchases. Proceeds from the divestiture of the adhesives resins business are expected to be deployed early in the year to at least offset the dilutive impact of the divested earnings.

There are also some headwinds and uncertainties that we face in 2022. First, the $1.1 billion of revenue and $100 million of EBIT from tire additives and adhesives resins businesses will be a headwind to earnings. Second, we continue to invest in growth as we fund innovation across our portfolio. These investments come not only through the SG&A and R&D lines, but also as pre-production expenses and other startup costs as we approach the mechanical completion of our methanolysis facility in Kingsport. Third, we expect that spreads within Chemical Intermediates will normalize during 2022.

All together, we are well positioned to create our own growth and build upon what was a record year in 2021.

Slide 12 – Well positioned for strong 2022 adjusted EPS growth vs 2021

This bridge is similar to what was shown in our third-quarter financial results conference call. Despite continued uncertainties and challenges that have persisted throughout the fourth quarter and into the new year, we still think the key assumptions in this bridge are the right way to think about 2022. There are a few items that are slightly different from October. First, our expectations for specialty volume/mix growth have modestly increased, and to support this, our growth spending has also increased. We expect inflation to be higher and our pricing actions have addressed this challenge. We also expect spreads in Chemical Intermediates to normalize, but not as quickly as we premised back on our October call. In addition, the impact of the COVID-19 Omicron variant has created more short-term supply chain disruptions. All together, we remain confident in our 2022 adjusted EPS guidance range and look forward to building upon the momentum from last year as we move through 2022.

Slides 13 – Five key themes underpinning our building momentum

As you think about how we create value going forward, it is worth returning to the five key investment themes we discussed at our Innovation Day less than two months ago. It all starts with our innovation-driven growth model. This model is the heart of who we are and how we win in the marketplace every day. This model is delivering results and we're demonstrating our portfolio can grow above our underlying markets with products that have higher margins and drive strong mix upgrade. As we look ahead, we are well positioned to leverage our model to drive not only meaningful growth, but also meaningful change. With a focus on providing real product solutions linked to disruptive, sustainability-focused macrotrends, we are confident that as Eastman delivers compelling growth, we are also making a positive impact.

A new vector of growth will be our circular economy platforms, where we have a great opportunity to deliver attractive growth by addressing the plastic waste crisis and reduce our impact on climate at the same time. It starts with the global brands that are making significant commitments to reduce plastic waste and their carbon footprint. And they are working with Eastman as a leader to help them meet their commitments for improving the environment without compromising on the quality of their products. We are well positioned with two molecular recycling technologies for our world-class polyester and our cellulosic biopolymers technology platforms. And we are making great progress in scaling up our innovation with the recent France project announcement. We are showing the world what is possible *today*, and we can do this while delivering an attractive ROIC.

At the same time, we continue to make investments in strengthening our execution capability to drive the top line and translate it to the bottom line. We continue to improve our commercial and product excellence. Our new integrated business planning system will enable us to support growth better while keeping inventory levels low. And our operational transformation will improve our reliability and cost competitiveness.

ESG is also integrated into how we do business at Eastman. We are committed to reducing our greenhouse gas emissions by 1/3 by 2030, and then to achieving carbon neutrality by 2050. We also remain focused on attracting, developing, and retaining the best talent. We are committed to achieving a more inclusive and diverse workforce which is critical to having the best team with the most diverse perspective and set of experiences so we can make the best decisions.

When you put these four themes together, strong cash flow results. And we're going to continue to have a very disciplined and balanced approach to how we deploy it. 2022 is a year of continued momentum for the Eastman team, and we’re off to a great start and we are excited about delivering strong results, now and in the future.