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PRESENTATION

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

Thank you and welcome back. Next, we have Eastman. With us, we have Willie McLain, Chief Financial Officer. Before we get started, I'm going to read these important disclosures and ask you to please see the Morgan Stanley research disclosure website at morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley representative.

QUESTIONS AND ANSWERS

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

Maybe just to get started, you could just give us an update and walk around the world in terms of what you're seeing in terms of current business conditions.

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

Okay. No, thanks, Vincent, and great to be here is. So we're doing a Morgan Stanley Conference this year. It's been six to eight weeks since we did our conference call. As we look around the world, what I would say is North America continues to be as you would expect, the most resilient economy. I think China has disappointed those that had hoped this year that they would recover. And I would say Europe's trading sideways at a very low level. So that's really from a global sense.

As we think about the transition from first half to second half, we had highlighted on the call that we felt primary demand -- that we had reconnected to primary demand in most of our end markets, but weren't expecting growth in the second half. And I would say, overall, that continues.

But I would highlight that we're well on track to our full-year guidance and the second half. And as we think specifically about our Q3 results being similar to Q2 at \$2.15 per share that we're on track to deliver that here in the quarter.

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

That's great to hear. Maybe just shifting gears now to methanolysis, you've been in operation and generating revenue since March. Can you just give us -- I know it's been six to eight weeks since you last answered these questions, but obviously with the new plant, we're all very interested in hearing about how it's coming, up and running, and operating rates and percentage of on-spec product it's making. And you have a -- I think it's now a \$50 million EBITDA target for the year. So if you could just update us on progression there.

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

What I would highlight -- as we highlighted on the call, we have had the caught the material which had caused the process to not operate as efficiently, as we had introduced an increased level of hard to recycle material. Mark highlighted on the call and -- that we were implementing

changes to the operating process as well as the feedstock material, and we've continued to make progress on that. The plant is up and running and continues to demonstrate a higher level of on-time and making progress towards those goals to be around that \$50 million at year end.

Also, we've got a scheduled polymers turnaround, which includes our methanolysis, as we highlighted on the call during October of Q4, and we look to finalize the process modifications to enable us to achieve both the higher rates and also the efficiency of leveraging that broad slate of hard recycled content. And with that momentum, that will give us the confidence to be able to deliver on that \$150 million exit rate in 2025.

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

And what about from a customer feedback perspective, as they're getting more and more experience with the recycled material, are they telling you anything interesting that's left in terms of their own demand or expectations or what applications they're now using it in? Are you seeing it -- as it leaves you and goes to the customers, that progressing properly?

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

Yeah. A couple of things I would highlight for those that don't follow Eastman as closely is the fact that with this hard-to-recycle material, we are demonstrating that we can produce the scale and also the spec of material that is comparable to fossil fuel; you cannot tell the difference. And we've not only demonstrated waste to methanolysis and the intermediates, but we've taken those recycled DMT and EG into our Tritan material.

And as they're receiving that material, they're also -- they can't tell a difference. We're not having to requalify this material, because we've used glycolysis to do that. So that's exciting. One, that it's going through the value chain, and our customers are getting the quality and spec that they need. And this year, we had expected a growth with our existing customer base, probably at a higher rate than new introductions in the new markets. That's actually playing out a little differently than we had expected.

As you think about the level of inflation, and as you think about at the consumer level, they are looking for value, in some cases, discounts. So that slowed down the adoption rate and existing applications for the recycled content to be adopted.

But the exciting factor is, we're actually winning in new end markets, whether that's personal care, cosmetics; it can also be in, I'll call it, tools and durables. Those types are winning at a faster rate. And in many cases, that's because they have a new brand that they're bringing to the market that's differentiating them. It isn't a discussion around going from a Tritan product to a Tritan Renew.

And I would actually say that's more exciting, because as we're building out the third Tritan plant, that's what we want to occur. We need to grow our end market. And as I said all along, I expect this third Tritan facility to sell out faster than the first and the second.

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

And just going back to the feedstocks, you referenced earlier that you're working through the process of using the more complex or dirtier feedstock. How is the procurement going? And as you think about that second plant in the United States, where are you on procurement for that? And is anything changing in terms of the type of post-consumer waste that you want to procure as you think about the Texas plant?

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

Yeah. I think with Kingsport, we're demonstrating that broad diverse feedstock from polyester carpet fiber to large chunk polyester waste to all of the colored polyesters that you see in landfills and in videos online. So we've got the broad spectrum in Kingsport, and we've actually introduced much of that already into our process to date.

So what I think this brings the opportunity is to go into different regions in the US, it could be similar partners that we have today, or it could also be a broader slate. Like here in California, we are bringing some of that polyester fiber that -- it can't go to landfill here. It's actually going into and being recycled into durable products. It could be a bullet blender. It could be -- into durable things that are going to be used for years versus in a single-use plastic that's going to a landfill. So great progress on both fronts.

I think in many cases when we brought the circular business model forward as an organic growth platform that was unique to Eastman. That was a concern that -- I'll call it the supply chain. But at the scale of two plants, when you may need 10 to 15 plants to solve a -- I'll call it a each continent's opportunity, we're sitting in a good position today.

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

As you think about the Texas plant, how are you doing with permitting and budget and just sort of getting to those next proof points in terms of moving forward with the project.

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

So happy with the progress that we've made since the call. Obviously, that hinges around the negotiations that are going on in the DOE. We appreciate the speed at which they're working with us to get that under contract. Also making progress as we think about the engineering of the facility and getting it to that quality investment that helps us make the investment decision. We'll be speaking more about that progress, both on the Q3 earnings call and the Deep Dive that we'll be hosting in Kingsport and online on November 21 later this year.

So exciting progress. I think because the environment is conducive and looking forward to bringing with the Texas facility, the potential to reduce the carbon footprint compared to fossil fuel up to 90%. So think about that. We can actually take carbon in the form of cups like this or plastic bottles, which is a more purified carbon, and turn that back into a durable product or in this case, a circular solution for PepsiCo and other brands such that they can produce that at 90% less carbon footprint than the process exists today.

I think that's powerful. And I think as consumers, we all find value in that. And we can do it in a way that's going to generate solid, consistent returns. As CFO, that's most important.

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

For sure, for sure. As we think over in Europe and in France, I think there are budget things you're working through there and then you have customers trying to get over the line in terms of securing the terms that you would like to have before moving forward there? Is there any update on either of those items?

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

I would say at this point, there's no updates. I would say those are still the two main issues. We're working those even today, as you would expect. To me, Europe, ultimately, they're going to get to the right point. It's interesting that with the level of inflation that we've had, they've got already established goals in place that are requirements in '25 and 2030.

What's not clear today is what's the cost to companies and the consumers of not achieving those, and also, with recent policy discussions, can recycled content be brought in from other regions. Just the fact that we're having that discussion of recycled content being brought in from other regions, that's not a sustainable business model. In that case, you may be bringing recycled content from Asia to meet the needs and then what are you going to do? You're going to still have to incinerate and landfill?

This will get worked out. We're trying to influence that. The French government's been very supportive, and our brands have been supportive on, and I think we will get to the right solution. In the meantime, the way we also support that is deliver on our Kingsport plant and make Longview a reality such that it's not a theoretical discussion; we're demonstrating to the world what's possible and in an economic return way.

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

Okay. Well, that was great. Shifting gears back to sort of the operating environment and sort of the end of the year and looking into next year, one of the big topics of conversation, not surprisingly at the conference to date has been around interest rates. We're hopefully on the cusp of a loosening cycle.

So maybe you could just sort of talk about what you think the impact of lower rates could be for Eastman as we move into next year? And I don't think anybody expects the world changed with a 25 basis rate cut later this month. But there are different points of view on how many cuts the US and I guess the world is going to need in order to really start moving the needle and get us out of the malaise in the last couple of years. So any thoughts there?

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

I think we're all trying to look forward to that point where primary demand is growing, especially in end markets like building and construction, automotive, and durables more broadly. Good to see the ECB took the action. I think the long-awaited Fed is coming, right?

But I do then think it has to be more than that. And honestly, it's been good recently to see as the crude oil market and some of the other commodities start to actually connect back closer to material demand. All of that can be positive from a consumer point, right, which is there is more cash that starts to build. There is more flexibility they have. And also, you're going to see a cycle of people spend money on experiences and travel.

So now we're a year that's year four, year five from when COVID and things like that unfolded. Materials are going to come back into demand. I think it will be positive. I think there will be lots of debates here in the near term is it okay. Is it at the end of Q1? Is it Q2? The positive thing is the momentum is changing, and I'm sure there will be lots of debate -- was it too late on as we look at this? But it should open up outside of our stable markets, those other markets for growth.

I'm actually happy to say here today like this year in the automotive, we called the decline in builds this year. The consultants are coming there. But like in our Advanced Materials business, our interlayers business is growing because of our innovation growth model and being able to deliver not only the core safety films but multifunctional films. And we're growing our footprint on each car, whether it's EV or ICE. So innovation is proven, and we're going to have to continue to innovate to be successful into the future.

Vincent Andrews - *Morgan Stanley & Co. LLC - Analyst*

I look at your volumes, and if I use 2019 as a base year, in some of your businesses, your volumes are way down versus any sort of reasonable proxy for what volumes should have done with GDP multipliers or IP multipliers or whatever you want to use. And we all lived through the two years of destocking.

So I guess I'm curious as you talk to your customers -- and here we are on the cusp of this rate loosening regime -- are you getting any sense from them that the level of inventory of your product that they would like to hold, which I'm assuming is at very low levels based on what's transpired over the past couple of years that as rates come down -- it won't just be that we'll see some improvement in consumer activity and building and construction?

Is it probable that the supply chain folks are going to say, you know what, we've kind of gotten away with holding on to safety stock levels of inventory for two years, and we maybe did that for any number of reasons, one of which was just the cost of carry? But now that cost of carry

improves maybe, it's a little smarter to be -- if the pendulum will swing a little bit back towards the middle in terms of amount of inventory we're holding.

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

So it only takes one supply chain event to ultimately cause that to come into recognition. So I agree the cost combined with the amount of destocking, the pendulum has swung. It swung too far, and there will become a medium -- I think that would be growth on top of that. So as reference from '22 to '23, with the destocking event and primary demand declining, our volume mix declined \$450 million from '22 to '23. We call it roughly a third of that being related to destocking. We're seeing the recovery of that this year.

And then we're growing off of that lower base. I actually believe that the lower level of safety stock, and I'll call it the activity with a growing economy, will also be another percentage of that growth that gets us back on track. And we're leveraged -- we've talked about it, with methanolysis and the investments here to innovation, we're leveraged to recovery with rates, and we're a strong cash producer in any economic environment. So as you think about Eastman and going forward, that's what's a sustainable future and with our investments focused on our specialties.

Vincent Andrews - Morgan Stanley & Co. LLC - Analyst

Yeah, I think going to a level beyond rates, which obviously has been an issue over the last couple of years, we've had China not really recover to prior pre-COVID growth rate, had a very slow European economy, and some of that may be an -- has interplay with each other. But what are you seeing on the ground in both Europe and China right now, and do you think it's plausible that we've kind of bottomed finally in Europe, and that there's may be scope for recovery next year with lower rates and maybe some lower energy costs or -- ?

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

So great question. As I look at Europe and China definitely underperforming -- maybe to set up the picture for Eastman, roughly 75% of our global assets are based in the US. China is about 10% of our revenue. Europe's between 25% and 30%.

So as we look at those, we're serving those from what I view as one of the best cost positions in the world as we think about the access to those markets. The challenge with Europe is, in many cases, the materials from Asia and China more broadly are ultimately impacting their economy. So it's been an interesting set of assets for the Europeans to compete. But also as a US manufacturer going into Europe, it's not where you want to be right now and we need demand to soak that. It will actually improve every region of the world. And I think going forward, that would be additional upside.

The economy is going to have to grow differently in China than it has in the past. The automotive space has been strong, but they're still exporting a lot of that. So I think Europe and China are a little bit inner-dependent. Europe will get better if China gets better from a asset position.

Vincent Andrews - Morgan Stanley & Co. LLC - Analyst

Yeah, no, for sure. You referenced your cost position. And just one of the other things that transpired since you reported is that we've had a lot of volatility in the energy market and particularly with oil prices coming down, and there's debate over whether that's a recession indicator or what have you. But the fact of the matter is the price is lower. So what impact does that have on your business, whether it's in terms of your own raw material base, the things you're buying or on your customers or just in general?

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

So typically, the way we looked at oil is -- to your point if it's demand-driven decline and while there's benefit, that demand impact and the variable margin loss is going to be a headwind. On a global basis, our specialties have a lot of cost pass-throughs and compete on the value in use. So from that lens of declining energy, raw material is net positive.

The opposite would be true for our intermediates business with the crude environment relative to naphtha. But energy broadly and with our US asset position, that gas it has been positive here through the summer, which has been good to see and has enabled the benefit in a pretty weak demand environment.

Let's hope that it's reconnecting to the environment versus some, I'll call it, the trading and/or building supplies in different parts of the world.

Vincent Andrews - Morgan Stanley & Co. LLC - Analyst

We also have an election coming up in a couple of months. And one of the dynamics that could result from that regardless of how it goes -- is just sort of trade tensions. We obviously have lived through a period of tariff implementation late in the last decade. So I'd be curious to know what sort of the learnings were from that that could be applied if we get into that type of regime again this time around.

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

So let's maybe first talk specifically with China, because I think that's where a lot of the learnings were last cycle. Roughly 5% or roughly half of our sales in China stay in China. So in many cases where it was imported and re-exported, the tariffs were not a significant impact. But where we imported to compete locally, that was a challenge.

I would highlight that was part of the reason for that acquisition in our Performance Films business to produce locally. We have North America is a large region in China, and now we have assets in each of those regions to serve as well as some expanded capabilities in Europe to also to serve China, which is a great market with automotives growing and having paint protection and window film, which are appealing within those markets.

Vincent Andrews - Morgan Stanley & Co. LLC - Analyst

Okay. Are there any questions here in the audience? Okay then. Thank you very much.

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

All right. Thank you.

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