EASTMAN

Eastman 2Q 2024 Financial Results Prepared Remarks
July 25, 2024

Slides 1 and 2:

This document provides the CEO's and CFO's prepared remarks for Eastman Chemical Company's second-quarter 2024 financial results. This is to be read with the second-quarter 2024 financial results news release along with the provided slides, which detail our second-quarter 2024 financial results. The aforementioned items were publicly issued and posted on our website (investors.eastman.com) after the close of NYSE trading on July 25, 2024. On July 26, 2024, at 8:00 a.m. ET, Mark Costa, Board Chair and CEO, and Willie McLain, Executive Vice President and CFO, will host a public question-and-answer session with industry analysts that is accessible 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 second-quarter 2024 financial results news release, in the remarks in this document and in the accompanying slides, during the call, and in our filings with the Securities and Exchange Commission, including the Form 10-K filed for full-year 2023 and the Form 10-Q to be filed for second-quarter 2024. 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 second-quarter 2024 financial results news release.

Slide 3 – 2Q 2024 highlights

We finished the first half of the year by delivering strong second-quarter results underpinned by topline growth and sequential margin improvement. While underlying markets remained challenged, the Eastman team stayed focused to deliver on our commitments and build momentum for the second half of the year. Sales volume/mix increased 6 percent year over year, supported by double-digit volume/mix growth in Advanced Materials. On a sequential basis, we translated growth to the bottom line and expanded adjusted EBIT margins increasing 300 basis points. Margins benefited from volume/mix growth and the associated operating leverage. Our team also demonstrated commercial excellence in managing our selling prices relative to lower raw material and energy costs.

We continued to successfully serve our customers from the Kingsport methanolysis facility while demonstrating higher operating rates and broadening the range of hard-to-recycle feedstocks. We'll share more about our progress on a later slide.

Cash remains a priority for Eastman, and 1H24 cash flow was in line with expectations. The company also repurchased $100 million of shares in second quarter 2024, consistent with our balanced approach to capital allocation.

Finally, we announced a handful of local partnerships in the Tri-Cities, Tennessee, region to support the circular economy and boost community recycling. For example, Eastman recently partnered with regional grocer Food City, where shoppers can deposit nearly every type of plastic that serves valuable purposes in daily life. The waste is then used in our polyester and carbon renewal technologies. We are proud that our growth investments are enhancing the quality of life in a material way.

Slide 4 – Update on ramp-up of Kingsport methanolysis facility

Moving next to an update on our Kingsport methanolysis facility. We've made great progress over the past several months as we have been operating the world's largest molecular recycling facility. At this point, we have fully validated the process chemistry with rDMT from the facility fully qualified for use in a broad range of polyester products, including Tritan™ for food contact applications. In the month of June, more than 75 percent of the DMT fed to our largest Tritan™ line was rDMT with no difference in Tritan™ quality. You'll recall that at start-up, we faced a diverse set of construction issues and mechanical challenges related to valves and rotating equipment. Our teams have done a terrific job of addressing these issues, and we are confident that they are largely behind us. From the beginning, our feedstock strategy has focused on hard-to-recycle waste plastic. We have demonstrated the ability to run the facility at operating rates of around 70 percent of design rates using a diverse feedstock slate. However, as we have broadened the use of hard-to-recycle material, we encountered feedstock preparation issues that led to downtimes longer than anticipated. We are addressing these issues with some basic equipment modifications. As a consequence of the downtime across the second quarter, we had higher costs flowing through into inventory. As we ramp up sales in the second half of the year, we will see higher costs flow into Advanced Materials.

On the commercial side, there continues to be strong customer engagement for Renew materials across a broad range of markets and applications. However, customer ramp-up rates are modestly slower than we had anticipated given the inflationary pressures on brands. Our commercial teams are winning new applications, and there is a robust funnel of opportunities targeted to close as we move into the second half of 2024 and further ramp up in 2025. With the combination of demand recovery from the end of destocking and from new application wins, we are now moving forward with the previously delayed expansion of Tritan™ capacity by 80 KMT. We expect the added capacity to be online in the second half of 2025.

Due to the start-up delays and modest reduction of customer ramp up orders, we now expect incremental EBITDA from the new facility in full-year 2024 to be around $50 million. Although this is below our initial expectations, this represents a strong result for a unique and complex facility in its first year of operation.

Lastly, a few comments on our projects in Texas and France. For the Texas project, we remain on track for an investment decision to be made during the third quarter this year. The Texas project will accelerate the demonstration of industry-leading, low-carbon intensity recycled PET. With the deployment of thermal heat batteries and onsite solar power combined with our methanolysis technology, we can achieve a step-change improvement in decarbonizing PET resulting in up to 90 percent reduced carbon emissions. And, for the project in France, our priorities remain securing customer offtake contracts and value engineering. We remain confident in the need for this and other plants but continue to evaluate the optimal timing of the project.

Slide 5 – Next-generation Advanced Interlayers products are driving strong growth in a flat automotive market

With demand across most of our markets remaining weak, driving growth above underlying trends is even more important than ever. At Eastman, we are leveraging our innovation-driven growth model to drive attractive growth in key markets. One great example of how we're delivering growth is in automotive with our advanced interlayers business. In the second quarter, the team delivered double-digit growth in premium products for head-up display and solar control offerings. This growth is fueled by both increased penetration of existing customers and strong adoption of our new product launches. A great example of the momentum we are gaining from innovation is the recent launch of Horizon Vision – a next-generation interlayer that enables image clarity enhancement for cameras behind the windshield in advanced driver assistance systems. This is just one of many examples of how our innovative products are aligned with important automotive macro trends.

Slide 6 – Corporate

In second quarter 2024 compared to first quarter 2024, revenue increased 2 percent due to 2 percent higher sales volume/mix. Higher sales volume/mix was led by Advanced Materials primarily due to seasonal increases in demand in durables and automotive end markets. Sales volume/mix increased 6 percent on a year-over-year basis primarily due to the end of destocking across our markets. Primary demand remained weak, but order patterns are now following a more normal seasonal cadence as our volumes have reconnected to underlying end-market trends.

Adjusted EBIT increased 29 percent sequentially and adjusted EBIT margin increased 300 basis points. The increase in EBIT was driven by higher sales volume/mix and improved price-cost. Our team also continues to demonstrate commercial excellence in managing our pricing relative to lower raw material and energy costs.

Adjusted EPS of $2.15 exceeded our original guidance of approximately $2.00. Sales volume/mix and primary end-market demand trended mostly in line with our original expectations. Elements that tracked slightly above our expectations included more favorable price-cost and strong operating leverage. These results continue to validate that the Eastman team can recover earnings, even in a weak market environment.

Slide 7 – Advanced Materials

In second quarter 2024 compared to the first quarter 2024, revenue increased 6 percent due to 7 percent higher sales volume/mix partially offset by 1 percent lower selling prices. All product lines improved as seasonal improvements in films and the end of destocking in specialty plastics provided a sequential improvement in sales volume/mix. Adjusted EBIT increased to $131 million due to higher sales volume/mix. Price-cost was stable.

Sales volume/mix was up 12 percent compared to last year with specialty plastics experiencing strong demand for Tritan™ as destocking in durables and packaging end markets came to an end. All in, the benefit from the end of destocking is proving to be a strong tailwind. Advanced interlayers benefited from favorable product mix.

As our sales volume/mix reconnects with demand in key end markets, we are also gaining momentum from realizing innovation-driven application wins. In a slow-growth economy, driving new application wins is critical to supporting our strategy, and the Eastman team remains focused on delivering above-market growth. Some recent examples of how we're driving innovation using Renew to outgrow the underlying market include:

- Nutribullet® Ultra – a kitchen appliance product that is popular in the marketplace and is an example of growth exceeding expectations.
- Stanley Black & Decker – initially incorporated Tritan™ Renew into a niche line of power tools and has now scaled the material into core product lines.
- deSter and Drinique – leading providers of innovative food packaging and serviceware to the aviation and food service industry leveraging Tritan™

Renew's unique combination of appearance, durability, and sustainability make it perfectly suited to replace single-use articles in areas such as commercial food service and airlines.

As we look at the third quarter, we expect to see improved sales volume/mix resulting from continued application wins. We also project an improvement in price-cost due to the continued flow through of lower-cost raw materials. These factors are expected to be substantially offset by the flow through of higher costs associated with the ramp-up of the Kingsport methanolysis facility. Netting these factors together, we project that Advanced Materials third-quarter adjusted EBIT will be similar to second-quarter adjusted EBIT.

Looking to the full year, we are confident that second-half earnings will be similar to first-half earnings. We expect the positive EBIT contribution from the Kingsport methanolysis facility will be mostly in the second half although less than previously guided. We expect further benefit from application wins like those mentioned earlier. We also expect modest volume/mix improvement in the second half due to share gain and market wins in our interlayers and performance films businesses. These factors should offset higher planned maintenance in specialty plastics and seasonally low sales volume/mix occurring in the fourth quarter. When considering these factors, we project full-year 2024 adjusted EBIT to be between $460 and $480 million.

Slide 8 – Additives & Functional Products

In second quarter 2024 compared to first quarter 2024, sales revenue increased 2 percent due to 2 percent higher sales volume/mix. Seasonal improvements and the end of destocking in agriculture and building and construction contributed to the sequential improvement. Adjusted EBIT increased due to higher capacity utilization and higher sales volume/mix.

Compared to our guidance, end-market trends in building and construction and agriculture were mostly consistent with our expectations for modest seasonal improvements in primary demand. In agriculture, North American demand remained stable, and destocking across the industry appears to be largely complete. Building and construction volume benefited from a slight uptick in seasonal demand. Price-cost again was a sequential tailwind.

Several products in Additives and Functional Products are building upon Eastman's storied history as a world leader in cellulosic chemistry and coatings additives. Our unique cellulosic stream is providing the perfect platform to innovate several bio-based products with sustainable beginning- and end-of-life profiles. For example:

- Our cellulose esters are enabling solutions in thin film coated paper applications to provide quick service and fast casual restaurant brands with fully compostable food packaging solutions without compromising barrier performance.
- We just launched our first cellulose ester micropowders that are in compliance with EU Synthetic Polymer Microparticle regulations that are providing cosmetic and personal care brands with high performance, microplastic free alternatives.
- In addition to these cellulosic products, we are also seeing growth in our EastaPure™ line of solvents where we have continued to advance process innovations that are allowing us to reliably deliver solutions to the growing U.S. semiconductor industry that consistently meet the stringent part-per-trillion impurity requirements needed in next generation chip production.

We are excited about our many opportunities under development for 2025 and beyond and our ability to provide a compelling solution for brand owners.

In the third quarter, we expect to see a seasonal step down in agriculture volumes with annual customer downtimes occurring. We expect building and construction end markets to remain challenging. Specialty fluids sales volume/mix is expected to increase sequentially due to a modest improvement in project activity. We expect that improved price-cost will partially offset the impact of higher planned maintenance. When putting these factors together, we project Additives & Functional Products third-quarter adjusted EBIT to be similar to slightly down compared to second quarter 2024.

In the second half of the year, we expect earnings to be slightly below first-half levels mostly due to agriculture and building and construction seasonal step downs and higher planned maintenance costs. Partially offsetting this seasonality will be disciplined management of price-cost and a modest improvement in heat transfer fluid project fulfillments. Taking these dynamics into consideration and factoring in our solid first half, we project Additives & Functional Products full-year 2024 adjusted EBIT to be between $440 and $460 million.

Slide 9 – Fibers

Second-quarter 2024 sales revenue was flat to first-quarter 2024 sales revenue. Sales volume/mix and selling prices held stable. EBIT increased due to higher sales volume/mix.

In the third quarter, we expect a modest sequential decline in EBIT due to higher planned maintenance shutdowns.

Textiles products continue to outgrow the underlying market and posted another solid quarter of sales volume/mix growth. Our growth investments are paying off and provide us confidence that we can grow in high-value alternative applications with our world-class cellulosic chemistry.

When factoring in this strong textile growth and the stability of the acetate tow business, we continue to project full-year 2024 adjusted EBIT to be approximately $450 million. The implied step-down in EBIT in the second half of the year is a result of higher manufacturing costs resulting from planned shutdowns in the second half of the year.

Slide 10 – Chemical Intermediates

In the second quarter 2024 compared to the first quarter 2024, sales revenue decreased 2 percent as 3 percent higher selling prices were more than offset by 5 percent lower sales volume/mix. Sales volume/mix was lower due to reduced volume availability resulting from planned maintenance. Underlying trends in building and construction also remained weak. Overall trends in the quarter played out as expected. EBIT increased due to an improvement in spreads.

Looking at the third quarter, we expect higher sales volume/mix resulting from increased volume availability after the planned maintenance of our olefins assets in the second quarter. Spreads are also expected to improve sequentially. Partially offsetting these tailwinds are higher planned maintenance costs for our acetyl stream. When putting these factors together, we expect third-quarter adjusted EBIT to be slightly higher compared to the second quarter.

We continue to expect second-half earnings to exceed that of the first half due to improved spreads and increased volume. Partially offsetting these tailwinds are higher costs for planned maintenance in the second half of the year compared to the first half. Moreover, we will also further benefit from the end of destocking ending in core markets. Taking all of this into consideration, we project full-year 2024 adjusted EBIT for Chemical Intermediates to be around the full-year 2023 level of $111 million.

Slide 11 – Cash flow and other financial highlights

Generating strong cash flow continues to be a priority for Eastman in 2024. In the second quarter, cash provided by operating activities was $367 million. We continue to expect normal seasonal patterns for our cash flow, with typical second-half weighting. Priorities for use of cash continue to be funding organic growth, paying our dividend, pursuing bolt-on M&A, and share repurchases.

Capital expenditures are expected to be between $650 and $700 million in 2024. Share repurchases are expected to total approximately $300 million in 2024, at the high end of our previous range of $200 million to $300 million. In second quarter 2024, we repurchased $100 million of shares towards that projection. Our full-year 2024 forecasted adjusted effective tax rate remains unchanged at 15% to 16%.

Slide 12 – 2024 outlook

Our expectations for 2024 remain on track after delivering a strong first half. Drivers of earnings improvement remain largely unchanged. We expect sales volume growth to be the primary driver of earnings improvement as we have reconnected to primary demand after several quarters of significant destocking. Looking forward to the second half, we do not expect an improvement in primary demand in our key markets and geographies. In this context, our innovation-driven growth model, including our circular products, is creating our own growth.

In our specialty businesses, we expect growth in sales volume/mix for the year, especially in Advanced Materials:

- Around $150 million benefit from the end of customer inventory destocking
- Modest growth in stable end markets
- New application wins through our innovation-driven growth model

In addition to our core specialty growth, we expect the Kingsport methanolysis facility to deliver around $50 million of incremental EBITDA.

The total full-year impact of improved asset utilization in 2024 is still expected to be approximately $100 million, and on a year-over-year basis, the impact will be completely in the back half of the year. We continue to remain disciplined on cost management as we offset inflation. And finally, we expect a higher level of share repurchases in 2024 compared with 2023.

Several headwinds are partially offsetting these growth tailwinds. First, we project unfavorable price-cost in Chemical Intermediates, particularly in acetyls. Second, we expect approximately $50 million of higher costs as we continue to invest in growth and capability development. Third, we anticipate higher depreciation expense of approximately $30 million related to the investments we are making in growth, including the Kingsport methanolysis facility and new capacity for performance films in Germany and China. Fourth, we expect approximately $30 million lower earnings in heat transfer fluids within Additives & Functional Products due to the timing of project completions. And finally, both a divested business and a discontinued product line inside Chemical Intermediates represent a $30 million headwind from lower earnings.

In the second half of the year, higher planned maintenance is approximately a $50 million headwind compared to first half 2024. About half of these are related to a shutdown of our acetyl stream, which predominately impacts Fibers and Chemical Intermediates in the third quarter. The remaining half is related to planned maintenance for our polyester assets in Advanced Materials in the fourth quarter.

Altogether, we expect adjusted EPS to be between $7.40 and $7.85, demonstrating strong growth relative to 2023. We also expect full-year 2024 operating cash flow to be approximately $1.4 billion, as higher cash earnings should offset a natural increase in working capital associated with improved sales volumes.

Looking specifically at third quarter 2024 we expect sequential volume/mix growth in Advanced Materials and Chemical Intermediates. We also expect continued improvement in price-cost across most of the company. Other is expected to be slightly favorable on a sequential basis, consistent with our guidance of approximately negative $200 million for the year. Offsetting these factors are seasonality in agriculture, higher planned maintenance, and the flow through of higher costs from the Kingsport methanolysis facility. Taken together, we expect third-quarter adjusted EPS to be similar to second quarter of $2.15.

Slide 13 – Eastman Circular Economy Deep Dive

We are excited to announce that we will host investors in Kingsport, Tennessee, for a series of "deep dive" presentations on the circular economy and a tour of our methanolysis operations. The presentations and tour will take place on November 19, 2024. Presentations will be webcast live on our website and will be open to the public. In-person attendance is by invitation only, and we look forward to reaching out soon. We hope that you will take time out of your busy schedule to come see one of the world's largest recycling facilities in action and meet many of the Eastman team members who have worked so hard to bring it to life!

Forward-looking statements

This information and other statements by the company may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act with respect to, among other items: projections and estimates of earnings, revenues, volumes, pricing, margins, cost reductions, expenses, taxes, liquidity, capital expenditures, cash flow, dividends, share repurchases or other financial items, statements of management's plans, strategies and objectives for future operations, and statements regarding future economic, industry or market conditions or performance. Such projections and estimates are based upon certain preliminary information, internal estimates, and management assumptions, expectations, and plans. Forward-looking statements are subject to a number of risks and uncertainties, and actual performance or results could differ materially from that anticipated by any forward-looking statements. Forward-looking statements speak only as of the date they are made, and the company undertakes no obligation to update or revise any forward-looking statement. Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are detailed in the company's filings with the Securities and Exchange Commission (the "SEC"), which are accessible on the SEC's website at www.sec.gov and the company's website at www.eastman.com.