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EMN.N - Q3 2024 Eastman Chemical Co Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Greg Riddle** *Eastman Chemical Co - IR*

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

**Willie McLain** *Eastman Chemical Co - Executive Vice President and Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**David Begleiter** *Deutsche Bank - Analyst*

**Patrick Cunningham** *Citigroup - Analyst*

**Duffy Fischer** *Goldman Sachs - Analyst*

**Frank Mitsch** *Fermium Research - Analyst*

**Vincent Andrews** *Morgan Stanley - Analyst*

**Michael Leithead** *Barclays - Analyst*

**Josh Spector** *UBS - Analyst*

**Jeffrey Zekauskas** *JPMorgan - Analyst*

**Aleksey Yefremov** *KeyBanc Capital Markets - Analyst*

**Michael Sison** *Wells Fargo - Analyst*

**Kevin McCarthy** *Vertical Research Partners - Analyst*

**John Roberts** *Mizuho - Analyst*

**Laurence Alexander** *Jefferies - Analyst*

**Salvator Tiano** *BofA Securities - Analyst*

## PRESENTATION

### Operator

Good day, everyone, and welcome to the Third Quarter 2024 Eastman conference call. Today's conference is being recorded. This call is being broadcast live on the Eastman website, [www.eastman.com](http://www.eastman.com). (Operator Instructions)

We will now turn the call over to Mr. Greg Riddle, Eastman Investor Relations. Please go ahead, sir.

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### Greg Riddle - Eastman Chemical Co - IR

Okay. Thank you, Harry, and good morning, everyone, and thanks very much for joining us. On the call with me today are Mark Costa, Board Chair and CEO; and Willie McLain, Executive Vice President and CFO; and Jake LaRoe and Emily Alexander from the Investor Relations team.

Yesterday after market close, we posted our third quarter 2024 financial results news release and SEC 8-K filing, our slides and the related prepared remarks in the Investor Relations section of our website, [eastman.com](http://eastman.com). Before we begin, I'll cover two items. First, during this presentation, you will hear certain forward-looking statements concerning our plans and expectations.

Actual events or results could differ materially. Certain factors related to future expectations are or will be detailed in our third quarter 2024 financial results news release during this call, in the preceding slides and prepared remarks 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 third quarter of 2024.

Second, earnings referenced in this presentation exclude certain noncore and unusual items. Reconciliations to the most directly comparable GAAP financial measures and other associated disclosures, including a description of the excluded and adjusted items, are available in third quarter 2024 financial results news release. As we posted the slides and accompanying prepared remarks on our website last night, we will now go straight into Q&A.

Harry, please let's start with our first question.

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## QUESTIONS AND ANSWERS

### Operator

David Begleiter, Deutsche Bank.

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### David Begleiter - Deutsche Bank - Analyst

Mark, on your '25 outlook, you mentioned modest underlying growth, but then you will have above-market growth driven by your innovation. So a little more detail, what can that mean for overall top volume growth for Eastman in 2025?

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

Thanks, David. It's a good question. We're obviously spending a lot of time focusing first on getting through this year and delivering earnings. But obviously, we're all now looking towards next year as well. The story for Eastman has always been, over the last several years, the sort of volume and mix story is our biggest driver of some of the challenges we face as well as the opportunity that's now in front of us. Eastman is clearly leveraged to an economic recovery, and we can accelerate it with our innovation.

When you think about just the last couple of years, we've had incredibly high inflation interest rates, as everyone knows, and we've been in a manufacturing recession that really started in the summer of '22. So we've had almost 2.5 years now of no improvement in end market demand, especially in the discretionary markets. And when you think about the area under that curve of low demand, if you will, there's a lot of pent-up demand that has not been served even when you consider some of the overstimulation in '21.

So the macro is clearly uncertain right now, we all know that. What we do know, I think at this point, is that the customer inventory destocking is over and we're sort of reconnected to primary demand. We can also say that in the sort of what we call our stable markets, things like personal care, aviation, water treatment, ag, those markets have all been sort of steadily growing at modest rates this year, and we expect that to continue into next year. So that, I think, will continue. And this year, that's about 60% of our revenue.

The discretionary market, which are auto, housing, consumer durables, that's where we see demand has not really improved very much. And this year, that's about 40% of our revenue. Normal would be closer to 50%, so a lot of upside here as we sort of return to normal. The lower interest rates are for sure going to help improve the affordability of cars, affordability of homes. When you think about the US home market right now, we're at 1995 levels, 30% below 2019, and Europe and China is also challenged. So when interest rates start to become more affordable, which we expect will happen through next year at some point, you're going to see that starting to improve and that will certainly drive upside for us.

Same is true in auto where you'll see the lower interest rates helping affordability. And same thing, demand has not been very good for quite some time. On the consumer durables front, same thing, well below 2019 levels this year from an end market point of view, a lot of pent-up demand since the summer of '22. Recovery in housing will certainly help influence purchases. Less inflation pressure on everyday life will open up the opportunity for people to start replacing and upgrading consumer durable products are now starting to get pretty old.

So we see modest growth across all these markets. I don't want to oversell it. But what we expect and are going to plan for is a modest growth here along with the stable market. So clearly, that's going to help drive revenue and increase. And then you get to our programs to create our own growth. You've got the Kingsport methanolysis facility. Obviously, in three weeks, we'll give you a lot more detail about how we think that EBITDA will improve, but it will be a substantial improvement both on the revenue side as well as on a cost tailwind relative to this year.

You've got the auto film business, the auto interlayer business, always creating their own growth, especially interlayers is doing quite well with their product portfolio right now. We've got a whole range of cellulosic products starting to deliver some innovation growth. Naia continues to grow. We already have commercial orders in Aventa and food applications and expect that to accelerate in a variety of other programs, which we'll also tell you about at the Deep Dive Day coming up.

And then there's a variety of smaller but helpful innovation programs around semiconductors and coatings in the AFP segment. So overall, I'd say revenue is going to improve in a modest way from a market point of view, accelerated by innovation, giving us some good growth. And just to finish off the bridge, we do expect price to raw material costs to be relatively stable as we go into next year. On the specialty side, we think we'll have spread tailwind in olefins. And on cost structure, we are going to take a set of actions to drive costs lower than just offsetting inflation. So you'll have a tailwind there.

And then there'll be two sort of modest headwinds. We expect energy, natural gas prices to go up, and so there's always a lag in catching up to them, as well as some -- a bit lower volume in fibers as the markets adjust down in some inventory management. So when you put it all together, I think volume/mix is going to be a big driver. It's a combination of market and innovation on top of a structure that is favorable on cost. And when you net it together, I think that translates into a pretty substantial improvement in EPS over this year.

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**David Begleiter** - *Deutsche Bank - Analyst*

Very good. Mark, just on that cost issue. Where are you taking out costs that are driving the cost savings above productivity? And how material could that be in '25?

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**Willie McLain** - *Eastman Chemical Co - Executive Vice President and Chief Financial Officer*

So David, what I would highlight is we're focused on improving the cost structure because we have continued to be in a challenging environment. Although as we look beyond, I'll call it, just the normal productivity, our success in innovation has driven some level of complexity in our operations, and we're optimizing that from a product and an operations standpoint so that we can maximize gross margin realization.

Additionally, as you think about -- we just announced here in the quarter, there are targeted opportunities to optimize our global asset base with the shutdown of our interlayers resin operations line at our Massachusetts facility. And then as we continue to decarbonize, we think driving energy efficiency in the face of some of the higher energy costs that Mark just talked about is another pathway that can lead us to driving, I'll call it, cost savings above and beyond our normal level of inflation, and we've talked about that being approximately \$75 million in the past. So we'll be above that, and we'll finalize those plans and tell you more about that on our January call.

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**Operator**

Patrick Cunningham, Citigroup.

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**Patrick Cunningham** - *Citigroup - Analyst*

With a slightly lower methanolysis guide here, I think you cited continued consumer weakness. How should we think about some of these challenges weighing on incremental EBITDA next year?

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

So when you think about companies and brands trying to drive growth, they always want to use innovation to drive growth. That's always the best way to win in the marketplace. But when the economies are incredibly weak and you're under a lot of pressure on inflation, the rate at which they're trying to launch new products versus just manage our cost structure is weighted towards managing the cost structure. So we're seeing that through this year.

As the markets stabilize, which I believe they have done, and interest rates also help improve affordability of a number of different things for the consumer, you're going to see some recovery and stability in demand, in that companies will start switching more to how do I use product differentiation on the shelf to sort of drive growth. So while certainly the product launches are a bit slower this year, and clearly in a normal seasonal decline in the fourth quarter, you're not going to have a lot of product launches, we expect and see customers staying highly engaged and thinking about what they want to do as they go through 2025.

So we think we're in the right place for that to recover and get better, but it's certainly not as strong as what we would have guessed in the beginning of this year relative to where we are today.

**Patrick Cunningham** - *Citigroup - Analyst*

Very helpful. And then it sounds like there are some softness on the Fibers business into next year. Have any of the recent capacity announcements in tow, started to weigh on some of your contract conversations? And is there any intention of repurposing any of those assets for the business near term?

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

That's a good question. So first of all, we expect Fiber to stay stable over the next three years. We do see a bit of capacity coming online in China, which is primarily aimed at serving demand in China in a few countries that we don't serve. So in that sense, there is that dynamic. The industries had a lot of history around managing capacity to be aligned with serving the market. Eastman has been repurposing both our tow and slate capacity, as you mentioned, to support our Naia textile growth. And now we have the event of food packaging, which we'll tell you more about in three weeks.

We're just really excited. It's a huge volume market and a great opportunity in margins, a bit above company average. So we have opportunities to continue to run our assets pool that aren't directly dependent on tow, and we'll continue to drive that strategy, which I think is unique to us in this market space. The other competitors have rationalized some capacity. They have other high-cost assets. So we'll have to just see what they choose to do. But in the next few years, we're not really worried about that.

We think that the customers are still very much focused on security of supply and reliability of supply. If they ever get shorted on product to serve the market, is that a huge cost to them, the cost of our tow as a percentage of the price of the cigarette is extremely small. So you have to be very careful about missing out on sales if you get short on supply. So in that sense, I think we're in good shape.

When we talked about the decline next year, that's really just about market decline, which we think is 1% to 2%. That's traditional cigarettes declining 2% to 3%, being offset by the heat not burns netting out to that kind of a number. And we do see a bit of inventory management going on with customers in the fourth quarter here, and expect that some of that will continue into next year.

So we're putting a little bit of targeted inventory management and a few customers into what's going on this quarter as well as what we might expect next year. They've been holding a lot of security of supply, back to my point, and I think they're trying to look at how to optimize some of that inventory for cash purposes. So that's sort of how we look at it. So we'd expect the utilization rates to stay strong over the next three years.

**Operator**

Duffy Fisher, Goldman Sachs.

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**Duffy Fischer** - *Goldman Sachs - Analyst*

For questions just around the Texas plant that you FID-ed. So I guess, main question would be what's going to be different about that? Lessons learned from Kingsport, how is this footprint going to be different? The capital cost, the timeline to build, how will that be different than what you did in Kingsport?

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

Well, certainly, the Texas plant will incorporate all the learnings we've had on the Kingsport project, both in how to construct it more effectively, as well as how they started up better than what we've this year and reliably. So there's all types of improvements and insights we've had that we're factoring into this and certainly feel very confident that we -- with a better construction approach and a great large partner that we have we will be able to construct the project in the -- also part of this project at a much lower cost than what we spent on in Kingsport. So that, I think, is pretty clear and well engineered and we feel confident about it.

The project is different, though, in that it has a lot more scope to it than just building a methanolysis plant, because while we're leveraging a brownfield site in our Longview, Texas site, we are still having to build another a new polymer line that goes with this. We'll have infrastructure around this facility that already existed in Kingsport that we need to create, the tanks, pipe bridges, et cetera, that go with supporting this overall plant. So you've got more infrastructure involved. And we have an investment that's being supported by the DOE of a much lower decarbonization plan.

So the use of a thermal battery and solar to sort of drive it is another capital cost that is different than where we are today. It does get us down in our carbon emissions by 90%. So it's a very compelling project from a carbon emission, not just a waste management recycling point of view. So worthwhile investment.

The good news is, unlike Kingsport, we have support from the federal government. So we've got \$375 million of funding coming in from the DOE, another \$70 million of tax breaks coming in from the state of Texas. And we've got all of that factoring in to help manage some of the inflation we're facing as well as supporting this decarbonization aspect of the project. So overall, it's a bigger capital program being supported by these incentives and still has an attractive return around 12% as we aimed at achieving from the beginning of this platform.

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**Duffy Fischer** - *Goldman Sachs - Analyst*

Great. And then just if you could, volume/mix was strong in both AM and AFP. Could you break out how much of that was volume? How much of that was mix in each of those segments?

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**Greg Riddle** - *Eastman Chemical Co - IR*

Duffy, this is Greg. We do not have a breakout of volume versus mix. But in both of those cases, mix is a contributor as it always has been for Eastman. So I don't have a breakout for you today, but certainly, mix was a contributor.

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

What I would say though, Duffy, is if you think about leverage to economic recovery, the discretionary markets, which are more challenged, obviously, than the stable markets, those are our highest margin markets. So as you think about the recovery in homes, cars and consumer durables, that's a large mix lift going forward into next year and the years to come as we drive a lot of innovation in that space.

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**Operator**

Frank Mitsch, Fermium Research.

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**Frank Mitsch** - *Fermium Research - Analyst*

Congrats on the World Series, Mr. Riddle. Mark, you mentioned on the fiber side that you're looking at applications, I believe, you said in food packaging, that sounds new to me. Can you expand upon that, please?

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

Sure. Aventa, it's not sitting in fibers at the moment, just to be clear, it's actually sitting in Corporate Other. But it's a new innovation program that we're launching in food service. Basically, our cellulosic acetate, which is what we do use to make the tow fibers or eyewear and additives for coatings, et cetera, that core cellulosic platform that we have. One feature about it that we don't -- didn't talk a lot about into the last few years, is it's also very biodegradable, and you can tune the rate of biodegradability of it as well, depending on how you make that polymer.

So a huge opportunity in food service is there's a lot of packaging that cannot be recycled, it ends up in landfill. For example, those expanded polystyrene foam trays that your chicken and pork and beef sit on in the grocery, or the clamshells or straws for that matter. And what we figured out is we're making an excellent straw that's already going national here with one large company that is completely home and industrial compostable.

We also figured out how to foam it, so we can actually replace polystyrene and it's a drop in replacement to the current equipment. And all of those foam trades can now be made out of our Aventa cellulose acetate product and is completely biodegradable.

And even the microplastics that might originate from it will not persist in the environment, that's been certified in Europe. So it's a great platform. It's a huge amount of volume. Margins are good. And it's another exciting way to sort of keep asset utilization high and start turning the cellulosic stream into that growth across the company. And we'll tell you more about that when we get to the Deep Dive.

So the Deep Dive is going to focus on polyester and the methanolysis facility. But we're also going to spend time on all these different cellulosic products that are launching right now that we're really excited about.

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**Frank Mitsch** - *Fermium Research - Analyst*

That sounds -- yes, looking forward to that. And the company reported 4% higher sequential volume/mix in 3Q. Can you talk about where are you seeing that in terms of end markets and geographies? And -- that would be great.

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

Yes. So very happy to see the improvement on the volume mix. AFP had a strong performance. Some of that was heat transfer fluids into some different projects, and that was sort of around the world. Those are more sort of LNG-oriented projects, not specifically tied to China. And then we also had some improvement in coatings. Again, shipments around the world in some of our high-value coating additives that sort of were the biggest drivers of that improvement.

In AM, we were about flat. Inside that, we had great performance in the interlayer business driving some of that volume/mix improvement. I would say that the performance film business was sort of in line with the market. And the Specialty Plastics side, things were relatively stable. And then on CI, we just sold more volume as we had more volume to sell as we came out of some of those planned shutdown constraint on volume in Q2. And that was mostly North America.

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**Operator**

Vincent Andrews, Morgan Stanley.

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**Vincent Andrews - Morgan Stanley - Analyst**

On the chemical recycling, if you can just give us some dimensions around -- you're now looking for \$20 million to \$30 million this year of EBITDA. I think the original number was around \$75 million. So that walk from \$75 million to \$20 million to \$30 million, how much of it was from just sort of ramping the plant and having some teething issues that you're ultimately going to get to the other side of versus how much of it was just that the consumer offtake is maybe not as robust because of the macro? Maybe we could start there.

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

Yes. So the walk, as you described it, between sort of the lower uptime that we had in the start-up process of the plant versus sort of the ramp-up of sales, I'd say two-third of it is around the costs and one-third around the volume. Just to address the cost side of it, when you look at the year, we're obviously a bit optimistic around how quickly the plant would start up. So we've sort of learned from that.

I mean the construction environment was obviously very challenging, as you all know, that led to also a lot of construction quality issues and vendor equipment issues. And we lost about four months through the spring into May just dealing with all those sort of mechanical integrity issues around the construction of the plant. And then once we got to the feedstock ramp up and running at higher rates with that, we knew we were going to have complicated challenges in feedstock. We're using waste as feedstock. And we have always been using hard to recycle material from the very beginning.

So we've always been using challenging material. And the great news about that material is the process chemistry has worked incredibly well from the beginning. So as the plant runs, it's making on-spec material that's going into food-grade product with high clarity. It's just really exciting to see that process chemistry work so well and produce such a high-quality product. But as we told you in the second quarter call, we did run into some feedstock preparation issues impacting how the first part of the plant runs, and that was sort of causing us uptime problems, and how the feedstocks sort of led into the plant.

And we had a plan to fix it. It just took us longer to fix some of those issues and make the improvements necessary. So we had a lot more downtime through August than we had planned on. The good news is we got into September with those improvements in place and ran well through September with much higher uptime.

And so we feel good about how we entered our planned shutdown. And we had a planned shutdown for this facility that's aligned with the shutdown of all of our polymer lines for the Specialty Plastics business. And so in that, we also made a few additional improvements that we needed to be down to do.

So we feel good about that. We're at start-up of the plant and the final steps of that sort of start-up process. and looking forward to sort of running as we lead up to the Deep Dive day on the 21st of November. So those cost issues, which is predominantly a downtime related issue of how the plant was running due to these sort of issues on the front end, caused the cost to come to be higher as opposed to inventory and flows out of inventory.



And then I already addressed the volume question in prior point, which is when the economy is really weak, the rate at which people are launching new products is slower. But we're still in very high engagement from customers. We haven't lost -- actually, I think we've only lost one customer, now that I think about it, when it comes to sort of wanting to move forward. It's just the pace at which you're moving forward has moderated.

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**Vincent Andrews** - *Morgan Stanley - Analyst*

Okay. And then just on the Texas plant, can you let us know the mechanics of how that DOE grant works in terms of is it like a project finance where you draw it down and then you have to pay it back over time? I assume the \$70 million from the state of Texas requires pretax income from that plant to get the credit? Or are you able to use any income from Texas in the meantime?

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**Willie McLain** - *Eastman Chemical Co - Executive Vice President and Chief Financial Officer*

Vincent, on the DOE grant, you can think about -- we've gotten the first phase approved and we're going to be receiving the cash as we make progress on the investment and on the project overall. So the \$375 million will match the capital outlay over the time horizon, and we'll talk more specifically at the Deep Dive around the capital level. You are correct on the state of Texas, it is on the -- I'll call it, the income, but the income will be initiated as we build the project.

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**Operator**

Michael Leithead, Barclays.

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**Michael Leithead** - *Barclays - Analyst*

Great. What's the latest status update on the France methanolysis project?

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

So the France project, as we've discussed in the first and second quarter, is on a slower path of development. We've made phenomenally good progress on many dimensions of the project. So we've -- as we've discussed before, we got over 70% of feedstock sourced. We have great progress on permitting. In fact, we have a permit. We've made great progress on the incentives and have those secured. We're almost complete on the engineering work. So all of that's on track.

The one thing we have not succeeded in getting is the customer contracts for the packaging side of this project. And that's really been a delay due to sort of policy in the EU. So as I mentioned before, at the last moment in the spring of this year, they made a change to the policy. The policy was always written to drive high recycling rates, high recyclability of products within the union, and aiming to try and get that recycling of local waste out of the environment and not being incinerated, which is the primary thing that they do with waste in Europe, which also violates our CO2 policies of getting climate down.

But they came with some WTO concerns and said that imports needed to be allowed into the mix of what counts as recycled content. Obviously, imports replacing local demand for recycling doesn't make a lot of sense if you're trying to get waste and reduce incineration. And in fact, what will happen with all this import materials that will end up being incinerated and increased carbon footprint for the Union. So while there's a trade issue that needs to be sorted out, it doesn't really make any sense for recycling policy.

So I think that -- and there's a number of efforts going on to try and address this issue. But with that uncertainty or the ability to use waste from other countries, that's caused a sort of slowdown in the customer discussions as they're trying to think through their sourcing strategy.

So we don't yet have those customer contracts. And to be very clear, as we have been from the beginning, with our principles about the contracting model for packaging, if we don't have commitments from customers that give us a long-term commitment with stable margins and the pricing structure at the appropriate levels, we're not going to proceed forward with this project.

So until we get these issues resolved with the customers as they look at what they want their sourcing strategy to be, we'll have to sort of hold on this project. But it's shovel ready. So if we have the contracts we can move forward. The government -- French government is extremely supportive in doing everything they can to help us on this. And we'll tell you more about this also at the Deep Dive in a couple of weeks.

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**Michael Leithead** - Barclays - Analyst

Great. Looking forward to it. And then on the Kingsport methanolysis unit, I think in the last question, you talked about very good uptime in September after getting through some of those teething issues. What's been the steady-state utilization rate from this facility when the site has been running well during those periods?

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

So I'm going to hold off on answering that question because we have a lot of exciting things to show you around the plant and it's running. And we have been running at a reasonably good rates. We've told you in the past, we've been able to run that 65%, 70% range. And I'd say that's consistent. The issue hasn't been being able to run at good rates, the issue is just downtime to deal with some of these feedstock preparation issues. So -- and we've rate-tested every part of the plant at a very high rate. So we'll tell you a lot more about that in a lot more detail around sort of how we're going, and you can see the plant yourself.

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**Operator**

Josh Spector, UBS.

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**Josh Spector** - UBS - Analyst

Wonder if I could try again on PRT and just specifically '25. I understand you want to save some things for a few weeks from now, but you guys have been pretty clear about kind of the bridge of earnings from that this year into next year. So can we at least frame how we're thinking about the contribution to '25 at this point?

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

Sure. So one, I'm not taking the bait, so I'm not going to give you a number, but we will be sharing our thoughts with you in three weeks when we have more time to actually provide the proper context. But there will be two drivers of the economics as you go from '24 to '25. The very low uptime we've had in the first eight months of this project this year, obviously, will be much better next year. So we have a pretty high cost per unit going into the inventory this year, that's a headwind in the economics this year.

So as you start ramping up, that cost per unit goes down pretty dramatically from where we are right now, and so you're going to have a pretty meaningful cost tailwind relative to this year and running the plant. The second is that's just pure operating leverage and utilization difference.

And then the second part, of course, is ramping up on the revenue side, and we'll spend some more time. But both will be meaningful contributors to how you get to a better EBITDA next year versus this year. And it will be a key contributor to growth over this year, even in a challenged economic environment.

**Josh Spector** - UBS - Analyst

All right. Had to try. On free cash flow, I want to ask -- some interesting commentary on inventory build or strategic inventory build being a driver for the \$100 million reduction. Can you just talk about that? That seems to contrast a little bit with some of the weaker or slower demand commentary. So where do you see that opportunity and why?

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**Willie McLain** - Eastman Chemical Co - Executive Vice President and Chief Financial Officer

So there's a couple of items I would highlight. One is in the polyester space and the other is in the cellulose, which both Mark has touched on. So we have made selective choices in the specialty product lines. One was to manage shutdowns with here in September and October. So we'll get some of that back in the fourth quarter. But as we think about 2025 and being prepared for growth, in our polyester space, you've heard us talk about the flexibility of our polyesters. And we have a Tritan facility coming online in late fall of next year.

So what we're looking at doing is exhibiting that flexibility here in the early part of '25 by switching those polyester lines back to copolyesters as well as PET production. And we're building the inventory to enable us to do that now so that we can make those transitions and leverage the assets that we have on that front.

As we also saw, we continue to have capital discipline on our CapEx and we can reduce that to \$625 million for this year. Well, on the cellulose side, we are leveraging that to build inventory for products like Aventa, and so that we have those market adoption rates, et cetera, as we make plans to debottleneck those assets and are leveraging the inventory versus the capital here in the front end. So well positioned to provide growth and to be capital efficient as well between CapEx and working capital.

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**Operator**

Jeff Zekauskas, JPMorgan.

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**Jeffrey Zekauskas** - JPMorgan - Analyst

What's the EBIT drag from the methanolysis plant in 2024?

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**Willie McLain** - Eastman Chemical Co - Executive Vice President and Chief Financial Officer

So Jeff, obviously, as we've dropped down the EBITDA expectations, the incremental EBIT on a year-over-year basis is neutral. So there's no incremental EBIT on a year-over-year basis. And as we've talked about previously, the cost of the preproduction, et cetera, was fully reflected in our other segment in 2023.

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**Jeffrey Zekauskas** - JPMorgan - Analyst

And for my follow-up, is the price of the methanolysis product very different from your non-methanolysis copolyesters? Or how does it compare to Tritan? And what seems to be the primary applications? Who's buying it and why? And is it a wide variety of customers or is it very concentrated? Can you give us a sense of who wants the product and why?

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

Sure. So first of all, the premiums we're getting for renewed content, the recycled content in the products, is a premium on any of the existing products. Whether it's Tritan or copolyester, PET, there's a premium above all of those different products. Obviously, the amount of premium varies

based on the pricing of the underlying product and the value that it's creating in the application is going into. But there's a good return on that. It's also driving a lot of new market growth.

So answer your question, the applications we're going into are a wide spectrum of applications. This is a very fragmented market today that we serve in the business and will be fragmented, spread across a variety of markets. So we can range anywhere from cycle content going into usable water bottles with now and Camelbak in those kind of applications that are very obvious where you'd want to have a recycled bottle going into making a reasonable water bottle. You've got all the applications in the appliance world, whether it's blenders or and things like those kind of products that want to have a better sustainability footprint.

You've got new applications that it's opened up to us, like the housings for drills. We've told you the story around Black & Decker in the past. You've got large appliances also looking at these opportunities. A lot of that is Tritan. We've got a lot of cosmetic packaging, which has very aggressive sustainability goals that are converting over to recycled content where they're trying to get to 100% recycled content. And a lot of that cosmetic packaging. And that's a lot of our copolyesters, you've got packaging, consumer packaging opportunities.

It's really across the spectrum of end markets where we see the opportunity to create new growth and win applications that we didn't currently have, which is very profitable when it's opening up an entirely new market to valuing up markets that we're currently in. So we'll share a lot more about that with you also in three weeks, but it's a broad spectrum.

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#### Operator

Aleksey Yefremov, KeyBanc Capital Markets.

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#### Aleksey Yefremov - KeyBanc Capital Markets - Analyst

Mark, could you maybe provide some detail around Advanced Materials' key product categories, auto films, interlayers fragments, et cetera. What's been happening with demand in margins in Q3 and heading into Q4?

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

Sure. So first of all, I mean, all the end markets, excluding autos, which is a bit of a different story, but all the other markets obviously went through a pretty steep destocking cycle in the end of '22 through '23. And so what we saw in '24 was most of that being completely over and a lot of volume improvement, it was just that lack of destocking. And then you've got some modest growth occurring in markets across the space.

So in the automotive side of things, the automotive underlying market is clearly one that's getting a lot of attention right now. It's been a bit weak. So I'd say our view is consistent with the other views out there, where the overall underlying market is probably down 2%. Roughly in that, our interlayer business has had high single-digit volume mix growth. So significantly outperforming the business. So it's been exciting to see that happen and a lot of drivers behind that. But there's just a lot of design trends helping us on two dimensions and why we're doing well.

And not just EVs, which we're highly levered to, but also in ICE cars. We're just getting more territory per car, right, whether it's an ICE car or an EV. Side windows are now being laminated. It's actually moving at a pace of almost 4 times to 5 times, the rate of builds in how they're adopting side windows, that usually include acoustic management as well. You've got larger sunroofs, significantly larger on an EV, but even on ICE cars, they're bigger. And with EVs, when you put it all together, in particular, you're 3x square meters of an ICE car.

But even the ICE cars are trending in a very favorable way for using more laminated glass. And the products have a lot more value in them. So the heads-up display that's been growing double digits. They have solar rejection. Color matching, especially on the sunroofs, et cetera. So a lot of trends helping us grow better this year than the underlying market in a pretty meaningful way. And those trends will continue into next year. And if you combine it with modest growth in the underlying auto market, that's a good story.

Performance films, that's an accessory aftermarket, if you will. So it's the window films and paint protection films. It's not growing as fast this year in this economically challenged environment as people manage their pricing. It's still growing. Still growing a little bit better than underlying markets, but not the same story as interlayers. So that's on the performance films side, which is holding in reasonably well for the market that we're in.

And then on the Specialty Plastics side, I think that a lot of the volume growth this year is a lack of destocking, a little bit of modest growth in some of the stable markets that they're in. And that's sort of where we sit. So again, it's all about innovation. It's all about a little stability and underlying market growth that helps accelerate that innovation and adoption with the brands as they look to create growth in a more stable environment. So combined to help growth in next year.

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**Aleksey Yefremov** - *KeyBanc Capital Markets - Analyst*

And your coatings customers have been pretty vocal about how they feel regarding negotiating position with their suppliers. How do you think about preserving your margins in the coatings business in 2025?

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

Look, I think that every customer, including us, is negotiating as hard as we can to get the best price as possible for what we're buying in a weak economic environment. You're obviously going to do that. In the end, if you've got a specialty business, you have differentiated value in the products that you supply to your customers and you can maintain price discipline, which I think we demonstrated extremely well. So in an increasing environment, like '21 and the beginning of '22, you saw us very successfully raised prices in that environment to stay up with hyperinflation in our raw materials.

And you've seen since then us maintaining very good discipline on pricing for the value of our products. There's always a little bit of sharing that you do with raw material declines and that happens. We've always been clear about that. There's a bit of a lag on the way up, and there's a bit of a lag on the way down. But we're confident that we can maintain stability in our price raw material costs, which we've done this year and we'll continue to manage that way as we go into next year.

I think the only exception of that is a bit of energy increase on our side. So if the natural gas prices go up a lot, like the forward curve implies relative to this year, there will be a bit of a lag in our pricing and how it goes up relative to those costs. That will be a bit of a headwind. But we intend to manage the pricing and value of our products as we always have.

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**Operator**

Mike Sison, Wells Fargo.

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**Michael Sison** - *Wells Fargo - Analyst*

Mark, you've been running volume/mix here, mid-single digits for the last couple of quarters. It looks like you'll probably hit that for the full year in, as you described, not a great environment. So if things don't improve in 2025, a lot of competitors said the first half could be similar to the second half of '24. Is that a good base case because a lot of the new products and innovation that you've done heading into 2025? And if demand does get better, let's hope, would you be better than that?

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

So I think that sort of, again, depends on the market. There's no sort of uniform answer to that, Mike. In the stable markets, I think we've been seeing some steady modest growth this year, and that continues through next year. That's not back half loaded. So whether it's personal care, aviation --

medical destocking, by the way, is mostly over, so we'll get back to having growth in medical. Packaging, consumer packaging actually was a bit down this year, as you can see from all those companies that are in that space. And we do believe that will sort of swing from a low base to some positive growth next year.

So I think those are all going to happen through the year. The ones you're really talking about that are back half loaded, they're the more interest rate sensitive markets, like housing and auto, where it's a little unclear exactly when interest rates get to a point that encourages people to start selling their existing homes, or how affordability works on autos between interest rates and just the pricing the car companies are choosing to pursue. They've increased prices a lot over the last three years. So how they sort of manage that pricing. I expect it will start to come off a little bit.

So those kind of markets are probably going to be a little bit more back-end loaded than front-end loaded. Consumer durables probably in between those two stories and the rate at which it grows. So I don't think we're waiting for the end -- the back half to be strong. I think we'll have decent growth. But it's really early to say right now. There's a lot of uncertainty in the macro economy. You got an election coming up. You have instability in the Middle East.

Without a doubt, we see it in the fourth quarter, brands and retailers are being cautious right now and they're uncertain about where the economy is headed, and so they're being a little bit careful, which is understandable in the context. And so I think we need to get to January past the election and some of these other sort of uncertainties right now and see how the economy looks and we'll obviously provide you a good update on the quarter call.

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**Michael Sison** - Wells Fargo - Analyst

Got it. And then one quick follow-up on the methanolysis demand for 2025. Do you have a base load of sort of orders heading into 2025? And is there any impact from the election on that, do you think, if one way it goes the other, it could either kick start demand or maybe keep demand a little bit tepid?

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

Well, I'm definitely not taking the election bait.

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**Michael Sison** - Wells Fargo - Analyst

On both sides.

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

Yes. I think that there is a lot of uncertainty that -- in an election that holds people up, and you could debate the pros and cons of what Trump or Harris would do. So I think we just need to wait five days and see what happens. But when I think that -- when you talk about these uncertainties, I think that they're not going to have a direct impact on what we do right now in any significant way. I think the markets are stable. I don't think the policy changes that could be made right now would have a significant impact on were way or other.

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**Operator**

Kevin McCarthy, VRP.

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**Kevin McCarthy** - Vertical Research Partners - Analyst

Yes. Mark, your Additives & Functional Products business wound up doing quite a bit better than you would have thought three months ago. And so can you talk through what drove that? It sounded like heat transfer fluids was part of the equation there. Cognizant, I believe anyway, you were expanding capacity in that product line in Alabama. Is that done and did it help your business? Or is it unrelated and really you garnered the upside from other factors? Maybe you could just help with a forward trajectory there as well.

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

So as the Additives & Functional Products has done well because it's just an excellent execution on every dimension of running the business. I wouldn't ascribe to any one thing. Without a doubt, fluids came in a little bit better than we expected. But when you add it up for the year and even for Q3, it was great execution in getting volume in coatings. It was great execution in growing the care chemicals business. It was great execution in minimizing the decline in ag that normally happens as you go from Q2 to Q3 was not quite as much as we expected.

So it was lots of little wins that added up to delivering excellent performance. It's great commercial excellence in managing pricing back to the question a moment ago and defending the value of our products across our portfolio and improving and maintaining spread. So I would give credit to the whole team on how there is delivering really good performance in a soft environment.

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**Kevin McCarthy** - Vertical Research Partners - Analyst

Okay. And then as a follow-up, perhaps for Willie, can you comment on your capital expenditures for 2025 relative to the diminished level of \$625 million this year? And how does the ramp in Texas factor into next year's budget?

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**Willie McLain** - Eastman Chemical Co - Executive Vice President and Chief Financial Officer

Thanks for the question. Just as a reminder, our, I'll call it, base load maintenance capital is about \$350 million. This year, we're going to come in around the \$625 million. We're still setting our capital plan on the velocity as we look at, I'll call it, the startup of the Longview, Texas facility. But you can expect it to potentially be around where we started this year, which was around that \$800 million mark. But we'll talk more about at the Deep Dive and here in three weeks as well as on the Q4 call as we finalize plans.

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**Operator**

John Roberts, Mizuho.

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**John Roberts** - Mizuho - Analyst

Is the methanolysis unit running at full rates today?

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

No, John, I mentioned earlier, we're still in the start-up. So it was a month-long planned shutdown. We shut down all of our polymer lines for an annual planned maintenance every year in this time frame. And this plant shutdown in alignment with it, otherwise, we would have nowhere to go with the monomers coming out of the plant. So it's not yet started up, but we're in the final days of start-up right now.

**John Roberts** - Mizuho - Analyst

Okay. And then I think you mentioned that Aventa is in Corporate & Other. When does it move to the -- it will move to the Advanced Materials segment? Or will it move to Fibers because it's cellulosic? And when do you make that move?

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

CFO was looking at me to answer that question, because we're still debating it. We're excited about getting it -- ramping up. We haven't made a final decision about where it's going to land inside the company. So we'll let you know once we decide. We'll probably have a point of view on that by the time we get to January.

**John Roberts** - Mizuho - Analyst

But do you have a time frame when it moves to out of Corporate?

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

I think it will move next year, we just haven't decided which segment yet. There's good logic for both segments, as you just mentioned. So we're just working through the final decision.

**Operator**

Laurence Alexander, Jefferies.

**Laurence Alexander** - Jefferies - Analyst

Two questions. First, on your comments about degradable microplastics as a side effect or a consequence of your new products. Where are you seeing demand pull, if anywhere, related to that as a concern? And then secondly, we spoke quite a bit over the last couple of years about the amount of innovation around the automobile that helps you grow faster than the market. Can you just walk through where you're seeing a similar demand plus driver in either construction or appliances, durable -- those types of durable goods? Just to get a sense for what your operating leverage might be on a cyclical recovery and like how much faster you might grow relative to what the multiplier effect might be.

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

So I'm sorry, you just broke up a little bit on the first question. What was the first part of your question again?

**Laurence Alexander** - Jefferies - Analyst

So around the microplastics comments you made, it was a very quick side comment. But just if you can unpack it, where you're seeing it actually be relevant to demand pull?

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

Yes. So when it comes to plastic waste, people don't want it going to landfill, they don't want it to be incinerated and they certainly want to going into the environment. And a lot of things, a lot of consumer packaging, like most PET packaging, is very recyclable and should be captured and



recycled in some combination of mechanical, as well as what we're doing in chemical recycling. So that's great. But there are applications where you just can't do that.

So a meat tray that's got a bunch of bloods that sort of into it, it's not something that's getting recycled and a lot of other food waste containers. So it just ends up in landfill and there needs to be a solution. And so the whole point here is we don't want staying in landfill and we certainly don't want it breaking down to small parts and becoming microplastics. So -- and the good news about our cellulosics is they -- in any form or fashion, they will not persist in the environment as a microplastic, and that's been sort of certified in Europe by their sort of regulatory process and testing as well as compostable.

So we have a great solution. It's primarily driven by I don't want waste in my environment. And there are policies in several states that are banning polystyrene in food packaging where they have to go to something else. And this is, by far, the best solution one the marketplace as far as we can tell. So it's sort of all connected back to that plastic waste thing and in these specific applications.

On your second question in regards to do we have underlying trends driving above-market growth. Certainly, in the Specialty Plastics business, that's been true for, well, two decades, but certainly in the last decade. So Tritan has grown because it's a better product in many applications than polycarbonate functionally, but also because it's BPA-free. So you've got lots of growth happening across specialty plastics, where we're growing because we have a better performing product or a safer product happening.

In Coatings, we have the same opportunities. Tetrashield, which is the coating version of Tritan, you've got growth happening in those markets and underlying growth to be BPA-free PFAS-free. So we have a lot of different places where markets are being accelerated.

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**Greg Riddle** - *Eastman Chemical Co - IR*

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

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**Operator**

Salvator Tiano, Bank of America.

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**Salvator Tiano** - *BofA Securities - Analyst*

Firstly, I wanted to ask a little bit on the Longview FID. So I know you had a major anchor customer there before, but you were still waiting for a lot other things, including potentially more customers. So I guess what changed that you decided to approve the plant at this point? Did you get any more any more customer leads, for example?

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

So the decision to move forward on the Texas project. One, we already have a very large customer, Pepsi, that baseloads the plant, which we don't yet have for the French project as a contrast. So we feel very good about that side of it. This plant is going to be designed to include flexibility for serving specialties. So the combination of Pepsi and the confidence we have around serving some of the specialty markets, makes us feel good about that. And we got the DOE funding as we talked about earlier, that obviously supports the economics. And the engineering work is pointing at a capital cost that has an attractive return.

But that engineering work, by the way, is still underway and needs to be completed. But everything came together in the sense that we had clarity about this and that. Clarity and commitment is important for continuing to sort of sign up new customers at this stage as well as I get some of the inside work done.

**Salvator Tiano** - *BofA Securities - Analyst*

Perfect. And just wanted to clarify a little bit. This year, you also had a big earnings benefit from higher operating leverage from operating higher rates. How should we think about that next year? Is it going to be an improvement? Or have reached the -- their normal run rate at this point?

**Willie McLain** - *Eastman Chemical Co - Executive Vice President and Chief Financial Officer*

Yes. So we have seen the benefit that we highlighted earlier this year with the operating leverage across the company and specifically in Advanced Materials. We will have further operating leverage in 2025, as Mark has highlighted, with the Kingsport methanolysis as we have, I'll call it, stable operations and have the uptime behind it. So look to have other leverage in 2025, and we'll give an update on guidance on our Q4 call.

**Greg Riddle** - *Eastman Chemical Co - IR*

Thanks again, everyone, for joining us today. We appreciate your time and your interest in Eastman. I hope you have a great day and a great weekend. And I just want to end with let's go Dodgers. Thank you very much.

**Operator**

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

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