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EMN - Eastman Chemical Co at Citi Basic Materials Conference

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PRESENTATION

Unidentified Analyst

The company has accelerated innovation and reduced its exposure to merchant ethylene by running RGP feed slate at Longview. So here to provide us an update on Eastman's businesses, please welcome Curt Espeland.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

All right. Thank you. Good morning. I have no remarks, PJ. So we're ready to just...

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

We'll do a Q&A.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Let's just do Q&A.

While, we do that, just all -- and also, I want to mention Greg Riddle is here, our investor relations extraordinaire, who's ready to answer all the questions I can't. So...

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

So yes. Greg is the longest standing investor relations person, knows the industry inside out.

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Thank you, P.J. Yes, thank you. I appreciate that.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Good. Well, welcome.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

All right. Thank you. Good to be back.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Thank you for coming in. I know the weather is tough, but thank you for making it.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

No problem.

QUESTIONS AND ANSWERS

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

So we'll launch into Q&A. And maybe what we can do is go through some of your business segments for us and then come to strategy and financials.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Sure.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

So I wanted to start it with AFP and Advanced Materials. Transportation represents, I think, 20% of Eastman's overall sales. And in Advanced Materials, maybe it's over 30%. On the third quarter call, you mentioned that 4Q is going to be tough. And obviously, we know autos is being slow in U.S., China, Europe, when do you think autos and particularly tires for you begin to bottom out? And what's your outlook for 2020?

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. I guess maybe we can walk through kind of how those markets are -- we're seeing those markets in the fourth quarter and what are some of the conditions that help influence that in 2020. When I think about fourth quarter, we've talked about kind of overall demand of the company, it was looking pretty strong in October. And in fact, it did come in pretty strong.

November, I would say, P.J., was probably a little weaker than we anticipated. And then part is we saw the last couple of weeks probably more aggressive behavior with inventories and production with some of our customers. And the reason I bring it up now, it was really in the transportation auto area, where we're hearing from our customers, probably more aggressive inventory management than we had anticipated to start the quarter. So we're going to see how that plays out in December. I would suspect that aggressive behavior will continue. In fourth quarter, It will make fourth quarter a more challenging quarter than we anticipated to start the year. And it's not only transportation auto, it's also ag, those are the 2 markets where we're seeing more aggressive inventory management.

Now when I get past this quarter and go into 2020, it comes down in part to how well the underlying economies are. We know specifically that is a function of products to tires, additives business has been under some duress because of the demand for tires as a whole. And that was then also compounded with some of the new capacity brought up in China in some of the antidumping duties. So I think it's going to take a little while for that to work its course in 2020. I think transportation for Advanced Materials will still -- you'll still see good growth there, because that's where you see the innovation overcoming that. So I think Advanced Materials will still see growth, and it will be led by transportation with performance films in our interlayer products. And the other thing in Additives & Functional Products is innovation is still going to be the key for success to drive growth beyond those end market performances.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Sure.

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

P.J., if I could just add. I'd just like to characterize transportation for Eastman as a whole because it's not just 1 sector for us. It's a variety of them. So when you think about that 20%, about 10% of it is more focused on OEM and about 10% is more in the aftermarket. So think about refinish coatings or replacement tires or things like that.

The OEM exposure is more pronounced in Advanced Materials, particularly in the interlayers part of that business and also in the films part. And the aftermarket is more in Additives & Functional Products, that's both the tires and also the coatings.

And so when you think about the OEM exposure that we're seeing, a lot of that is more in Advanced Materials than it is in Additives & Functional Products. So they both feel it. And the tires issue is not just a demand issue but it's also a trade issue. There's antidumping duties that have been put in place there that are affecting global trade flows because tires from China, both in Europe and U.S. are subject to those. So it's a variety of different things within the overall transportation market that we're exposed to.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

And in terms of sort of stronger markets, you've talked about growth in Care Chemicals, water treatment, specialty fluids, how big are those segments as a percentage of AFP? And then what are you seeing for those segments in 2020?

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Yes. So the combination of those 3 businesses within Additives & Functional Products is about 1/3 of the revenue, plus or minus. And when you look at trends going into 2020 for all 3 of those, so for care chemicals for water treatment and then also for fluids, they continue to look positive for us. And so the kind of growth that we've seen here in 2019, we would expect something similar going into 2020 as long as there's not anything meaningfully different in the macro environment in 2020 compared to what we've seen here this year.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Okay. And then within Advanced Materials, you've talked about your protect -- film protection, I should say paint protection film, Tritan, heads-up display, how big are those as a part of Advanced Materials? And where do you see that going in 2020?

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Yes. So copolyester all-in is about half of the revenue in Advanced Materials. When you think about Tritan specifically, that's a business that now has revenue over $200 million and meaningfully over $200 million. So not the biggest part of that business, but a very attractive and successful launch of a new product that has happened over a number of years.

Interlayers is about 1/3 of the revenue in Advanced Materials. And that is both for auto exposure and architectural, and it's about a 50-50 split between those 2. So it's not just an auto exposure there, there's also an architecture exposure. And that actually has been going pretty well for us here in 2019.

And then the paint protection film is within the performance films part of the portfolio, and that's the balance, which is roughly 15%. And paint protection film, in particular, has been growing very nicely for us. And that started with an acquisition we did a number of years ago that has just been terrific for us.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

And in terms of areas where you are seeing competitive pressures, you talked about tire additives but also adhesives, I know there was an Exxon plant that started up. There was some pressure in for formic acid. I was wondering if you could just sort of maintain your...

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. So if you talk about, again, rubber additives, what we talked about there, that's been more of a demand story. And to some degree, some of the supply within China. Adhesives has been primarily a supply story. The demand for adhesives has still been growing, maybe a little bit of more moderate because packaging hasn't been as strong as the demand in '19 has -- in the normal market conditions. But you still like the long-term growth potential of the adhesives business. And so that just puts some competitive pressure on there right now on the supply side, until that new capacity gets absorbed.

On formic, it's a combination of both. Part of it is, again, some capacity that had been shut down, and China has now come back. At the same time, the formic acid, which would serve the swine market in China, which has suffered through the swine flu conditions, has created some short -- current demand issues at the same time. So you'd hope the demand side to alleviate, and then we just got to work through the supply side of that aspect of it.

All 3 businesses, Mark mentioned in the last call, we're looking at just to look at what other things we can do whether we can restructure it, whether we can look at different commercial arrangements, other ways to improve those businesses' performance compared to where they're performing today.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

And you mentioned the ag market, and that has hurt your amines business. And do you see improvement in ag? And you mentioned Asian swine flu, I've heard some news that it's spreading to other areas like Vietnam and Korea. Maybe you can talk about what's going on there?

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. So again, we're going to be exposed to those kind of conditions to the extent they come to fruition. On the ag market itself, I mentioned we are seeing a little more heavy destocking or at least more inventory mass management to finish this year. There, it comes down to just do we have a more normal ag cycle the next year, because I do believe the sector will move its inventories down to where they need to be to start the ag cycle. So it just goes back down, do we get a more normal weather condition next year to support the ag markets.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

And moving on to chemical intermediates. You cut your exposure to merchant ethylene by 80% by putting RGP into your cracker refinery-grade propylene. How is that going? And then when you talk about raw materials, overall, do you see 2020 as a year when you get some raw material benefit finally?

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Yes. So the refinery-grade propylene project has been terrific for us and has significantly reduced our exposure to merchant ethylene, as you mentioned. And in this year, that certainly has been a benefit relative to what otherwise would have happened if we had that exposure. And so the total capital associated with that project was something over $20 million, and the payback period on that has been short. And so just a terrific project for us and happy to have that reduced exposure to merchant ethylene.

As you think about raw materials more broadly, probably looking at something similar in 2020 to what we've seen in 2019 in terms of where prices have gone with -- without knowing what the economic environment is going to be looking like.

So as you think about the benefit of lower raws flowing through into our COGS, into our cost of goods sold, there's still some more of that, that can come. But there's a pretty good portion of it that we've enjoyed here in 2019 as well.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

And do you feel confident, Curt, that you can hold pricing if raw materials continue to come down which is what, we are, Citi, is forecasting for oil and gas and some of the derivatives?

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. So you got to really go segment-by-segment to kind of answer that, P.J. Chemical Intermediates typically has a lagging effect in pricing, but ultimately pricing will adjust relative to those raw materials. In part, it will also depend on the competitive environment we're in, depending on the underlying economy. Because right now, you've got a pretty competitive environment around the world, given some of the trade wars. But normally, you get a lagging effect. Additives & Functional Products, it's going to be typically come down to -- let's put aside those 3 markets -- business units we talked about. The other businesses have been doing good, maintaining its prices, adhesives and rubber additives have just had that competitive pressure. So those, in my opinion, should help start alleviate as we work through those issues.

In Advanced Materials, they've done a nice job maintaining pricing because they sell mostly on performance anyway. And so if raw materials do come up, to a certain extent, they're able to hold those prices there.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

And then can you give us an update on the Korea acetate tow production facility and the qualification there? Then I have a question on textiles.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Right. Do you have an update on that?

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

In terms of the qualification for the Korea facility with China National Tobacco Corporation, we've made progress on that and expect that, that progress is going to continue. I'm not sure that we're all the way there at this point, but we certainly have seen signs that we are making progress and expect that to continue.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Sure. And then you are taking fibers into textiles. I think you have a fiber Naia?

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Naia, yes.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Is that right?

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Yes.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Okay. Can you talk about that and for ESG investors here, how can you add recycle content to your textiles?

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Yes. So Naia is a product that is positioning us to repurpose some of those acetate tow assets to textiles. And when you think about the value proposition for Naia, part of it is that it's bio-based. It's coming from cellulosic fiber. That cellulosic fiber comes from sustainably managed force that are certified as such. And so probably about 50% of the content for Naia is bio-based, 50%, 60%, something in that range.

When you look forward, we have a technology called carbon renewal technology, and essentially what we're doing is we're modifying the front end of our cellulosics production to be able to accept waste plastic. And this isn't just 1 type of waste plastic. We can accept a whole bunch of different types of waste plastic or mixed plastics as well. So products that typically would not be used in mechanical recycling and, therefore, would end up in landfills, typically.

And we can do this at scale today. So we're at commercial scale now and expect in 2020 that we'll be able to accept up to 50 million pounds of waste plastic, including from carpet that is coming from California, and that's a supply agreement that we announced in early November.

And so you use that at the front end. And one of the great things about Eastman is the integration. We can then take that recycled content and use it in products like Naia, and so the value proposition would be both that it's bio-based and now the balance of it is coming from recycled plastic. And so if you think about applications like fast fashion in places like H&M, you can go to them and talk about the fact that Naia is both bio-based and it's from recycled content. That's the -- where it's coming from, that can then be a label claim that they can talk to their customers about and millennials that are interested in fast fashion, that's attractive to them.

This is not just focused on textiles though, this is much broader than that into packaging, ophthalmics, there's a bunch of different end markets that this can go into. And carbon renewal technology is one of a couple of different chemical recycling technologies that Eastman is working on. Another one is methanolysis, where you can unzip waste plastic into its monomers and use DMT and ethylene glycol to make what essentially is virgin plastic at the back end of that. And again, use it in packaging applications, cosmetics would be an example of a place. It also can go into food packaging. Because it's -- as if it's virgin at the end of that.

And so when you think about the next couple of years, the potential from a revenue standpoint for this area is in the $200 million to $300 million range, where it can help accelerate growth for us in some of these markets that I've talked about. And it's unique to Eastman. It's not that we're the only ones that are working on chemical recycling. But in the way that we're doing it and the fact that we're at commercial scale today, that is something that's, I would say, more unique to Eastman.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

And sticking to this recycling and ESG theme, you talked about CRT, carbon renewal technology at Kingsport. Can you explain to the audience what that is? And when do you think that could potentially become profitable?

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

Yes. I mean some of it we just talked about. But essentially, for carbon renewal technology, you're taking these waste plastics. A variety of different types. It doesn't even have to be polyester plastic, and it can be a mixed plastic. You then introduce that as a feedstock into the front end of your cellulosics production, for us, that's the gasifiers. And then you get back to essentially what we produce there as a syngas.

That's used in our acetyl stream that goes into cellulosics. And then those cellulosics are throughout our company. One example of that is Naia in the textiles area, but there are a variety of other places where cellulosics are part of our raw material stream.

And so that's where we think that we can get to a product that has a combination of being bio-based and from recycled content that is very interesting to a number of the brands that we're speaking to today who have made their own commitments about the amount of their packaging that's going to come from recycled content.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

One of the things I like about it, P.J., is the economics feel like they're going to be there as well. It's not just the benefits, and that's -- and it's going to be somewhat unique to Eastman, because we're one of the few coal gasification to chemicals. And if you're substituting basically coal for this other recycled material, then that just creates a unique opportunity for us and to bring it with our cellulosic integration combination with our polymer stream. So it's gasification, combined with our integration, combined with our streams that make this a unique value proposition for us.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

And what do you do with the carbon dioxide from there? Is there potential opportunity there as well?

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

The technology is available to capture the CO_2, then you just have to still have to deal with, though, how do you -- what you do with the Co2. That's been a challenge with the Kingsport facility. So that doesn't solve that aspect of it. But it solves a lot of other dimensions of ESG.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

And then, Curt, I think free cash flow has been the hallmark of Eastman. You've been consistently generating over $1 billion of free cash flow. I think through the first 3 quarters, you bought back over $600 million worth of stock. So do you see that continuing into 2020? Or do you think there are some M&A opportunities that you can potentially look at?

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. So first of all, I think about -- you should continue to see the same disciplined capital allocation from Eastman that you've seen in the last several years. And again, also continue to see the strong free cash flow generation because that speaks to the quality of the businesses. We're going to come and go a little bit with these challenges of a quarter here or there, macroeconomic environment, et cetera, but we have a great team that knows how to manage the cash flows in that environment.

When you think about the allocation itself, I think we've done, but I think -- Willie McLain is here, about $525 million of acquisitions and share repurchases this year. Is it to date...

Gregory A. Riddle - *Eastman Chemical Company - VP of IR & Communications*

$375 million.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

$375 million, sorry, $375 million. He's hyperventilating with us at $525 million. $375 million, which is pretty consistent with our strategy that we've had. We did talk about one of our main focuses is to continue the deleveraging that we need to do that post our acquisition. So we're looking to do $300 million or so of that this year. And that will happen here in the fourth quarter.

For 2020, our expectations will probably do at a minimum $300 million of further deleveraging, just because of the EBITDA growth because of the economic environment hasn't been there. We've committed to our investors and to our rating agencies, we're going to continue to march down towards that 2.5x debt-to-EBITDA ratio. And so that will require us to do some additional deleveraging in 2020. And so hopefully, that, combined with some EBITDA, will get us closest to that 2.5x.

In absence of then what deleverage you need to do with that remaining free cash flow typically will be deployed in one of 2 ways. That will be share repurchases in absent of bolt-ons, but we'll continue to do bolt-ons, much like we did the small fluids acquisition, and we did a small yarn acquisition to support that textile business.

Right now, we have a pipeline. I would say it's not anything imminent. We're still dealing with an environment because of this uncertainty, it's hard to get -- come to an agreement on what the fair price should be, not so much on the multiple, but what is the reflection of the trailing 12-month EBITDA and where it needs to go.

So I'm a little cautious right now whether M&A will get done to start the year, but we'll see how it plays out next year as it relates to the cash deployment options we have.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

You mentioned multiples, given that 2019 was a tough year, multiples come down. Because somebody commented earlier that people are still expecting 2018 multiples and 2019 EBITDA.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. No -- well, at least -- first of all, as you look at our track record, we've never typically paid more than 9x for something, and it's been with good quality businesses. So that's why you got to be a patient buyer. My impression is, is that multiples are still -- I think you can find reasonable multiples out there on M&A. I still think it's a bigger question right now on what is the trailing 12-month cash flows. And is that indicative of what your next couple of years are going to be if you're going to buy into this kind of uncertain economic environment.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Talking about uncertain economic environment, I mean, CEO, Mark Costa, sounded quite cautious on the third quarter call. You sounded cautious on 4Q. What's the outlook going into 2020?

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. It's interesting. When you talked about fourth quarter, Mark talked about, we updated our guidance to be roughly $7 to $7.20. Now when we talked about that, there's an environment maybe the economic -- October is looking a little bit better. Maybe we could do a little bit better than that $7 to $7.20 , by the same token, we talked about if there's the risk of a lot of inventory management or we're now hearing customers prolonging or going into shutdowns earlier, we could be lower than that $7 to $7.20. So maybe that's some of the pessimism you're feeling. And then quite honestly, I think we're more in the latter camp today than we are in the optimistic camp, just because of what we're seeing coming out of November. But December is a big month, so we'll see how it plays out.

As it relates to then 2020, we're still looking at managing the things we can control. So the 3 things we've been talking about is how do we drive innovation and market development capabilities. And now you look at new innovations like CRT that we just talked about as new ways to generate revenue in absence of a sluggish economy.

The cost reduction programs that we put in place in the second quarter -- or second quarter of this year, roughly a $40 million benefit this year, you get the full year benefit next year. And so that will help. And I assure -- I can assure you that if we continue to deal with the sluggish economy, we'll look at other cost reduction programs we can implement, particularly on how we can improve logistics cost, manufacturing cost, et cetera. And then third is the capital deployment, whether it's lowering interest expense, share repurchases or doing some bolt-on acquisitions.

So those are the things that when I still look net-net, despite we have some challenges, like many in the industry, maybe variable comp will go back to normal levels after a tough '19 that we're experiencing in here. Maybe we will still have some spread compression carryover from '19 and '20. But when I still look net-net, even if we have a sluggish environment like we have today, we can still see EPS growth next year. And we'll just -- we'll talk more in January, what level of EPS growth we can expect, maybe we'll have a little more certainty on the economy of 2020 next year at that time. I'm looking forward to put 2019 behind us, let's put it that way.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Great. Well, let me stop here and see if there are any questions from the audience. Well, maybe I can just continue going on. How do you see the pension impact next year with lower discount rates? On the third quarter, you mentioned that pension sort of was a negative factor. How do you see that as discount rates keep dropping?

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. So if you think about just our pension costs, our pension plans for the U.S. are predominantly closed, but just they're not frozen. So we still have some pension obligation. And so that was -- when you looked at the combination of going into 2019, a combination of higher discount rates as well as to tough fourth quarter market, our pension assets were lower. So the headwind this year is roughly $30 million on a year-over-year basis.

Now what you're seeing is going to be with discount rates coming back off, they're almost 100 bps lower than they were at the end of last year at this time. That will increase our pension liability to some degree, but it will actually lower our pension cost in 2020. And right now, knock-on wood, market conditions are such the pension assets are much stronger than we were at the start of the year.

So that could be potentially -- reverse a good portion of that $30 million in 2020, but we'll have to see how the pension assets come together and the like. So it will help offset some of the variable comp challenges we may have or some of the other move -- gives and takes that we have within our cost structure.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

And then let me ask you a question on coal gasification. You've run that coal gasification plant for a long time. Now that natural gas prices have come down, how does your advantage shake out with natural gas prices?

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. So if you think about relative to natural gas, if I could, P.J., I'll bifurcate it into 2 aspects. One is don't forget we use both coal and natural gas to generate electricity and steam for our facilities. And right now, we're roughly 50-50 natural gas, and other half coal. And generally speaking, that has increased our operating cost slightly, but it has reduced the capital requirements that we'll have converting some of those boilers to natural gas. So I like being kind of 50-50 right now to see where the world takes us on both of those fronts.

And then as it relates to material being used for our gasification. I'd be honest with you. Our acetyl stream makes money no matter what natural gas prices are. It's a beautiful engine, and now we add some of the CRT technology to it. I still feel very good about the relative position of our gasification relative to natural gas.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Great. Chris?

Unidentified Analyst

The trade war continuing, it seems like one of the bigger risk is capital spending is moving right for a lot of companies, companies cutting CapEx, and that's -- could be a big growth driver. Now, obviously, it's a deterrent. I mean how do you think about that just in a broader sense? And then how do you think about your CapEx going into next year, I mean you're at a level where you're just going to maintain at your current level regardless, given your growth initiatives. There's a possibility you could end up cutting it next year.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. Chris, so 2 questions there. First of all, when I think about the economic environment, when I think about what we're serving, how it's going to influence our demand, I still think more industrial production as a whole rather than just capital investment. That could be a part of it. Don't get me wrong, but it's going to be an assumption around industrial production is. So that's how we'll look at it as a whole.

Right now, I'm just trying to characterize if it stays at the current levels compared to '19. We can see a pathway to EPS growth, if there's cutbacks, and the PMI index continues to be negative. That will be a challenge for us as well as many in the industry. As it relates to our own capital plans, we've made some modifications to this year's plan, we had roughly $450 million. We brought it back to $425 million. And I would say the starting point is going to be roughly in that range, $425 million to $450 million next year. But we're going to have to see what environment it is. If it continues to be more of a challenging environment, we'll have to have conversations, do we delay some of the growth spend to better match when it's going to be needed or if the environment looks a little more robust, maybe we start seeing an increase in some of that spend.

So we're still talking and debating through those topics. The good news is there's a variety of -- I have a list of great projects out there. They got good returns. It's just a matter of balancing how much we want to make further investments when I think about the earnings, cash flow and return on invested capital goals that we try to accomplish as a company.

So I'd keep it in that $425 million, $450 million level for now, and we'll talk more in January when we talk about overall free cash flow goals for next year.

The good news is we'll have the free cash flow to support the capital investments and the other capital allocation choices we want to make.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Curt, you have a large business in China. And clearly, China slowed down this year, but there are some data points that are showing that things are improving here as they had some stimulus and all that. Are you seeing that? Or is that not yet seen in numbers?

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. So definitely, I think about our exposure to China is twofold, particularly with our specialties. Advanced Materials, the exposure is more of we bring product into China and then get it reexported. So that's really going to be influenced by trade wars. And Advanced Materials you've seen has really done really well once we got through the destocking early part of this year. And so I still think that's going to be a great business. And if anything, if trade wars get resolved then you pick the time frame, then you got a chance that there'll be rebuilding there. The main exposure they have is if it starts influencing consumer demand, end-market demand. And that's where we all don't know where that's going to go in this environment.

Additives & Functional Products is the business that's been the most impacted because it actually -- its special products go into China and are focused on consumer discretionary spending in China. And that's where we've seen a slowdown, and I'd be honest with you, I've not heard our business talking about optimism, that we've seen improvement. I don't know if you've heard a thing, Greg, get. And in fact, right now, it's still more, like, as I mentioned, more concerned. So markets, customers are prolonging or starting shutdowns earlier.

So I think there's a little cloud of uncertainty going right now. And I think companies like Eastman and others in our sector and our customers, we're focusing on managing inventories in this uncertain environment until we get maybe better clarity. I don't know if it's even start of the year, maybe post the Chinese New Year before we get better clarity of what kind of demand environment we're going to have. So that's why we focus on the things we can control.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Huntsman before you spoke and they talked about maybe customers taking extended shutdowns in December this year. Have your customers been telling you the same thing?

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. So particularly in automotive and ag, we're seeing examples where they're either starting sooner or they're going to be a little more prolonged or a more aggressive inventory management. And so again, I don't know how much of that's just being cautionary, again, in this uncertain environment versus are we truly seeing end-market demand reductions. I still think it's still right now. We don't know. So we're all just aggressively managing inventories.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

And we had a massive destocking cycle in fourth quarter of last year. How does -- how does this fourth quarter compare to that. I mean people were hoping that we get easier comps because 4Q of last year was so bad.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Yes. Yes, I think the -- first of all, a lot of the destocking that we saw, particularly because of our export model. As a reminder, Eastman is one of the 16th largest exporter in the United States. That's a lot of our specialty products, got made in our large integrated sites, get exported. So a lot of the destocking that we've been talking about has been the destocking that's gone through that supply chain that goes through that export model.

The destocking risk that remains has been predominantly western companies and western inventories. And I think that's where we're starting to see some of that impact right now.

So it probably doesn't feel as the magnitude is as great as the drop from third quarter to fourth quarter of '18 but there is some risk of destocking beyond normal seasonality in the fourth quarter. Again, particularly as we saw in November. And as we start December, it's -- the visibility is not very -- it's not very good visibility right now.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Any other questions? Well, if not -- well, I want to thank you.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Well, thank you, P.J., and thank you, everyone.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Good overview of the company.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

And enjoy the day.

P.J. Juvekar - *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Thank you.

Curtis E. Espeland - *Eastman Chemical Company - Executive VP & CFO*

Good.
