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PRESENTATION

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Good afternoon. My name is David Begleiter of Deutsche Bank's U.S. chemicals equity research team. Thank you for joining us for Deutsche Bank's Virtual Global Industrials and Materials Summit. I'm very pleased to have with us today, Willie McLain, Senior Vice President and CFO of Eastman Chemical.

The format of today's session is a fireside chat. If you'd like to ask a question, you can submit them through the web portal via the chat box on the left-hand side of the screen.

So with that, we'll jump right into it. Willie, good afternoon. How are you?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

I'm doing well, David. Thanks, and thanks for the opportunity to speak today.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

No, our pleasure.

QUESTIONS AND ANSWERS

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

So first off -- first up here, how's business? How are demand trends in May versus April? And what are you seeing in June?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Sure. Thanks, David, for the question. Consistent with our view back in April, we do see the second quarter as the bottom for the year, given what we know today. As we indicated back on our call, volume mix was down about 15% in April compared with March. And in May, our volume mix was down about 5% compared with April. So quarter-to-date, year-over-year, we're down about 15% from a volume mix perspective. And based on what we can see today, we expect June to be better than both April and May at this point. Our resilient markets are remaining solid, although some of the benefits from stocking up earlier in the quarter is slowing somewhat. The mix markets have obviously remained mixed at this point, and in particular, I would highlight building and construction.

And while the most impacted markets remain down significantly, we are seeing the auto market starting to recover, particularly for our interlayers and films businesses. Visibility for demand does still remain limited, but we're seeing signs of improvement and momentum here in June and are anticipating that we will gain further momentum in the second half of the year.

One other comment I would make is that we have kept some of our plants idled down a little longer and also running some plants at lower operating rates in this demand environment. All of this is focused on delivering the strong and robust cash flow, so the cost flow-through is probably going to be incrementally higher than we expected back in April.

But all in all, we're seeing positive momentum. The quarter doesn't look overall that much different than what we were anticipating back in April. But it's, I'll call it, much better to be at this point where we're seeing positive momentum here in June.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Very good. Very good, Willie. Just maybe just by region as well, if you can walk around the globe. China is close to back to normal. How about the rest of Asia? And how's -- what's happening in Europe and the U.S. here?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. David, broadly speaking, I would say it's hard to say that any region and market that is within our space is back to normal yet. I do believe Asia and specifically China is, as everyone else on this call is probably reading about and following, is where we've seen the most momentum. It seems like our offices and manufacturing locations there have been setting the trend and also the road map that we're leveraging in both Europe and here in North America as we get back to business. And again, I think seeing consumers in Asia and China and the demand picking up is an important component.

I do think as we look at North America, U.S. and Europe, that -- those 2 are, I'll call it, somewhat approaching the same levels of return. Many of the European economies are either tied to the capital builds or autos. And they've been much more impacted, somewhat like we highlighted in our most impacted segments back in April. But we're seeing momentum opening up both in Europe and the U.S., and consumers are spending. We're seeing that in a lot of the key leading indicators. And I think that will only translate over into more durables and auto purchases as we enter into Q3.

So good momentum. I think it's somewhat as expected. It's almost following the way the virus went around the globe. But the U.S. and Europe are still linked and also still having some impact on the broader Asian economy. So June, July, August, if we can keep that momentum, I think that sets out a positive picture.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Well, you had mentioned back on the Q1 call that in response to lower demand, you had taken down some operations or operating rates and idled several plants. Is that still the case here in mid -- early to mid-June or plants still idled and/or running at reduced rates for you guys?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

So the answer is yes, David. So we set out an operating plan for the quarter that was focused on cash. But we still have the appropriate inventory levels and the operating flexibility to meet demand as it's starting to recover. So while the plan wasn't specific to any 1 month, we looked across the quarter, and how could we best balance between all the key stakeholders, from customers, employees, et cetera, to deliver the cash flow goals that we had for Q2 and then also establish and have us ready for the recovery.

Also, as we highlighted on the call, in connection with that was the fact that we were increasing our cost reduction efforts to $150 million for the year, and we were trying to achieve at least 1/3 of those in the quarter. And those operating plans and cost reduction plans, I would say, are both on track and integrated.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Willie, on those savings, how much are permanent, how much are somewhat temporary do you think?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Of the $150 million, I would say, roughly 2/3 or more of the discretionary demand oriented as we've adjusted travel, consulting, contractors. And earlier in the year, we talked about $20 million to $40 million of structural improvement. So we're trying to increase and accelerate that. So I would say roughly 1/3 or $50 million now would be our target on structural. And I think this also bodes well as we think about our 3-year plan in ensuring that we're definitely greater than that $100 million mark as we look at how we do things and apply all the learnings that we're definitely -- as we've gone through the COVID-19 experience.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

And just one last thing on the capacity utilization headwinds you'll incur in Q2 from lower operating rates. Is that most pronounced in Advanced Materials? Or is it spread out amongst other segments?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

No. I would definitely highlight that it's going to be most pronounced in Advanced Materials. And the reason for that is that's where the transportation and some of the exposure there in our interlayers and films businesses. And ultimately, with our asset footprint in AFP, what it's resulted in is more, I'll call it, reduction in capacity utilization rates on a relative basis to Advanced Materials. It will also have some impacts in our streams as we think about how we've reduced our acetyls and olefins and so forth to support our specialties. But it will be most pronounced with Advanced Materials overall.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Got it. Switching back to the actions you've taken in response to this pandemic and recession, you've also announced some actions on the CapEx side to preserve cash. Can you just address those and how are those progressing?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. So I think we've got a balanced capital plan now that sets us in that roughly $350 million mark. I call it it's slightly above our plans from business support or reliability capital. We've continued to invest in our Advanced Materials business in our films as we were reaching some capacity limits there. I would say that sets us up well. We had invested in our Advanced Materials multigenerational plans and interlayers and films broadly in that '16 to '18 time frame, including expanding Tritan and specialty plastics. So we're well set up for the recovery. And even in the second half of this year, I would expect our incremental margins to show through in Advanced Materials and broadly across the company.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

And Willie, on working capital, you increased your working capital release at the Q1 call by $250 million. However, since then oil prices have moved -- have almost doubled. So will this limit your ability to achieve that target you put out back in -- at the Q1 call?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

No. I'd like to highlight the cross-functional business teams that are focused on achieving that $250 million regardless of the raw material environment. We are very focused on optimizing our network, but still meeting our customer reliability and delivery schedules. So again, I do think as raw materials increase, that will be a headwind. But again, we're focused on ensuring that we deliver $250 million from an overall working capital standpoint.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

And you also put forward that you'll use all this -- you'll reduce debt by substantially more than the original $400 million target. So how much above that could be as much as double that level of reduction we're looking at this year for debt?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

The way I think about it is, obviously, we're going to continue to pay our dividend, and that dividend has been growing for 10 years. As you think about the cash flow scenarios that we laid out, we see a scenario with the actions we've taken that in a slow recovery, we can deliver greater than $1 billion. So with funding the dividend as well as offsetting dilution, that would give you somewhere in the $600 million range of potential debt reduction in 2020.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Very good. And you had mentioned raw materials briefly before. You also mentioned in the Q1 call that you were getting some benefits from lower raws that you hope to -- expect it to continue through the year. But again, since then, we've seen oil prices almost double. So given these dynamics, how should we think about raws through the remainder of the year for Eastman?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. So this is an area that we're obviously very focused on as we think about the value that we deliver in our specialty businesses. What we're seeing here in Q2 is year-over-year pricing levels similar to what we had in Q1. So we're being, I'll call it, very prudent and effective in how we think about our pricing strategy. So one, demand is increasing, which helps on that front, also in the value and use in our key end markets. We don't react to short-term crude oil changes broadly in our Advanced Materials and AFP segments. We do have some cost pass-through contracts in our amines stream within AFP as well as chemical intermediates. And those -- while the prices are changing, the spreads are somewhat very resilient in that aspect.

And we've seen some short-term dislocations in the Chemical Intermediates business. But I'd highlight there again, it's -- that's less than 15% of our business. And the fact that propane has run up faster than what we've seen propylene, we think that's transitory and should reconnect.

I'd even highlight in our Fibers business, they've been very focused on pricing and even here recently, had a multiyear contract settle with a modest price increase. So pricing and value creation is what our business teams are focused on. And definitely, that's still true here in this COVID environment as we transition back to normal.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

So we should expect the spread between price and raws, at least in the specialty businesses, to expand as the year progresses, is that fair?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. As we think about the full year, what I would say is we would expect the margins to increase in the second half, that's due, call it, more to getting the volume and mix increases. Again, I think at the current level and as we think about year-over-year, lower raws should be a slight tailwind.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Very good. And Willie, just taking a step back. On oil, is the structurally lower oil price positive or negative for Eastman?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

The way I think about oil broadly is an oil price that's increasing with demand and I'll call it, normal inflationary pressures is better for Eastman in the long term as we think through how we are competitive with our assets around the world. I think volatility in any form is not conducive and is difficult on business teams and the business environment overall. So that's what I would highlight overall.

I would say, ultimately, it's a modest gain at lower levels on a transitory basis, as our specialties will benefit from a value-add relative to the headwinds in our Chemical Intermediates business.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

And I guess, there are some businesses that are hurt from a competitive standpoint as lower oil prices bring in some higher cost competitors. Which businesses are those most exposed to low oil price from a competitive position?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

No. That's primarily our Chemical Intermediates business, David, as you think about the flattening of cost curves and the integrated margins that go with that piece of the business. But again, we've done things like our RGP investments in refinery grade propylene to continue to have a resilient spread between that and polymer grade propylene. So we're doing all the right things of managing the mix, et cetera, within that business team and business overall.

But again, the point that we have is we continue to deemphasize that because as we make the investments in the areas of where we can create value-added applications that differentiate our customers and make them successful is ultimately what our innovation-driven growth model is about.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Very good. You mentioned margins earlier. Just a quick question as demand does recover across the portfolio, how would -- how should we think about incremental margins at Eastman and maybe by segment?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

So maybe I'll answer it at a high level first, which is as we think about incrementals and/or decrementals, but I would focus on the incrementals as we're starting to see the demand recovery in June and as we see that momentum continue into the second half. So the first view I would have is, one, we'll be running the plants to meet the increasing demand. So as increasing demand picks up, I think about -- you can think about gross profit plus D&A as incremental like, and somewhere in between that and variable margins.

And that momentum, you should see snap back first in our Advanced Materials business because we've had an operating strategy that you won't have higher fixed costs flowing through inventory. I would say you would see that follow-on in our AFP business as it will have some higher fixed costs flowing through because we kept the plants running to meet our customers' needs. And that would then follow-on into Chemical Intermediates at the tail end. Broadly, we see Fibers as being somewhat stable at the overall margin level.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Very good. Maybe switching now to the portfolio and capital allocation. First, on the portfolio, you announced back in the Q1 call that you were, I guess, putting on hold the process to look at alternatives for the 1/3 of the AF&P business, that was under pressure of tire adhesive resins or formic acid. Where is that process today?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

No. David, what I would say is, I would say, fundamentally, it's still paused. Obviously, we had, I'll call it, very good interest, both interest in the quality of the portfolio and also interest in the innovation that we were investing in and looking to hit key milestones. I think as things open back up, we'll look and see at how fast companies reengage and what that means for the future.

But be assured that we're focused on driving the outcomes in adhesives and rubber chemicals. Those business teams are very focused on how do we deliver the most cash and value in the long-term for creating shareholder value for Eastman or creating the most value through partnerships and/or divestitures.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Very good. And I guess, you've also mentioned that you're using this additional time to restructure these businesses, taking out costs, exploring their manufacturing footprints. Where do these efforts stand today? And any decisions made on the manufacturing footprints, in particular? Willie?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Yes. I just wanted to touch on the fact that you're using this additional time to restructure these businesses, take out costs and potentially take out some manufacturing. Just want to get an update on where this process stands today, especially on the manufacturing side of the equation?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

No. Great question. So as we think broadly about the sites and locations and how we've operated those in Q2, we're continuing to make progress on that assessment and would expect to have updates on that in the not-too-distant future. But I think all across Eastman, each of the teams, the manufacturing and the business teams are focused on reducing the cost, running the assets in the most effective manner and making sure that we have the right distribution footprint to serve these as demand recovers. So we've made definitely making progress on value creation on all those fronts. And again, we'll have updates here in the near term.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Very good. On cap allocation, you already addressed potential debt reduction in 2020. Can you discuss your other capital allocation priorities? And how they might progress as you pay down some debt and that might have a little more flexibility in the out years?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. So to me, I mean, from a business strategy standpoint, a key piece of that is organic growth and then how do we think about bolt-ons as part of each of our individual segment team's business strategy. And being proactive instead of reactive on that front so that we have options, depending on the pace of recovery and leveraging that, like we did to build out our films business and the paint protection business that we acquired there to accelerate the growth in -- back at the end of 2014. Those are great examples of putting capital to work in a bolt-on scenario.

Additionally, as you said, by paying down more debt here and on the other side of the recovery, that should get us more in line and on path to our net debt-to-EBITDA of 2.5x, which will give us additional opportunity. Again, I'd also like to highlight, as we're continuing to make progress on our circular economy and our advanced circular technologies front, and again, we're at commercial scale there today and looking at what's the right pattern and -- to take that to market from a strategy standpoint as we make progress there and engage with key brands on the organic front and having that capability for our customers.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

How is the M&A pipeline today, Willie?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. Obviously, as you find anything in a transitory state like this with -- that's had a shot I think there are still some transactions that have -- that are finishing up. But I think there's been some that have also delayed coming to market as a result of the economic uncertainty and the pace of recovery. Obviously, if the second half starts to recover at rates that the market is expecting, I would think you would start to get more businesses coming to market and more activity, which, again, will provide more options to further build out the individual business strategy.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Very good. Maybe switching to innovation. We've really seen the portfolio transform over the last couple of years become clearly more resilient, growing a little faster, higher margin. And a lot of this has been due to innovation, your innovation-based growth model. Can you discuss how this model works? And what makes it unique for Eastman?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. To me, as we think about the growth model and you think about the technology platforms that we have within Eastman and then how we take those with customer insights and deliver applications that make our customers more successful downstream in their market. So a great example of that has been within our acoustic and heads-up display interlayers. It gives the capability for not only sound but lightweighting of cars as we try to achieve that broader -- from a fuel economy standpoint. And it's taking those insights and being able to test our capabilities and -- at the same level of our customers longer term.

Also, there's the growing, I'll call it, around the circular economy and the recognition that plastics are key, and we've seen some of that here in the COVID-19 and about how we bring solutions with the real issue, which is plastic waste. And we have a couple of great technologies in that, that provide solutions that truly give a circular nature without loss of functionality. And those are some great ways that we can not only deal with customer needs but also societal needs into the future. And we're making great progress even in the face of the demand environment that we've been in because there's such a compelling need in that space. And those will be future opportunities that differentiate Eastman in the long term.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Can you remind us what your -- what your targets are for new business revenue at Eastman?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Yes. So David, I would say, obviously, in the near term, we've been reviewing and adjusting what that will be. And I think what we would do is speak to that later in the year as we reset some of that on a post-COVID target and based on business acceleration.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Understood. You've also just announced and talked about some additional earnings drivers through site optimization and licensing income. Maybe first on site optimization because there has been some initial success with, I guess, a new ammonia plant and hydrogen plant being built at your Texas City site. Can you talk about the opportunities in site optimization of what that could yield from earnings over the next maybe 3 years here?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

No. Excited about the opportunity, David. And again, we see that as in -- potentially in the $30 million to $60 million benefit over the next 3 years. And obviously, it's a combination twofold, one of leveraging underutilized assets. The Texas City was part of an acquisition that we had done several years back. And leveraging the great infrastructure that were part of that acquisition to enable others to be successful but also potentially give us the opportunity to advance those sites.

Also, on the other side of that, as we've highlighted, we made the decision with the Taminco acquisition at our St. Gabriel site that where we're producing products for Corteva that will also give us long-term growth in that space. So those are 2 great examples, and we're looking at other sites and locations of where, one, we can bring our streams and our technical capabilities with some of our great site infrastructure.

On the licensing front, we've been, I think, successful over time in both the oxo as well as the acetyl space. And we've worked on developing some technologies with JM Davy and have ultimately been able to develop a technology that allows monoethylene glycol to be produced from various products and streams versus the traditional ethylene approach. And the combination of our legacy technologies and this new MEG technology, we think that we can deliver meaningful earnings not only in 2020 but potentially as much as $50 million over the next 3 years. So we're trying to create value on many fronts. Part of that is leveraging our technology platforms using that market connect insight and also leveraging our site infrastructure.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Very good. Just a couple last questions. First on China, I believe you got about 10% of sales from China. How would a renewed U.S.-China trade dispute impact to your business, do you think?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

David, what I would say is, obviously, we were being proactive as you think about the trade disputes from 2019 and ensuring that we were leveraging our global asset footprint to the best of its ability. And I think by the end of 2019, we had that functioning well and producing the products to meet the customers' needs at the optimal locations.

At this point, as COVID we're just continuing to see the initial recovery in Asia, it's still too early to say. But I think between trade disputes as well as COVID-19, supply chains and customers out there will still be reassessing who their partners should be long term from a reliability of supply for the supply chain.

So I think we've had that initial reset. And I would say it's early to say of what any incremental impacts would be. But I think we've optimized things. And with business activity at the current low level, I think people are more focused on the reliability of their supply chains, which I would expect to offset some of that as potential other disputes unfolding.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Great. And lastly, Willie, just on Fibers, 80% of this business profits are from tow. Is this still a stable business in your view going forward over the next 2 to 3 years from an earnings standpoint?

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Fundamentally, that's what the business teams are driving. Obviously, the textile environment there has been less conducive in the COVID-19 environment. But I think as that recovers and the great plans that we've been unfolding with our Naia. And while the traditional textiles business has lower margins in the tapes, suit linings, et cetera, the Naia and the end markets that we're serving with our products there are very similar to the traditional filter tow.

So I do think it can be stable in the long term. The business is continuing to work through the multiyear contracts. Just as a highlight, recently, they were able to close out another multiyear contract that had a slight modest price increase here within the quarter. So we're still focused on driving towards that, David. And again, look to make continued progress that I think we demonstrated over the last 3 or 4 quarters.

David L. Begleiter - *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Very good. With that, our time is up. So Willie, thank you very much for your time, and thank you all for dialing in. Have a great day.

William Thomas McLain - *Eastman Chemical Company - CFO & Senior VP*

Thanks, everyone.
