THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

EMN - Q2 2019 Eastman Chemical Co Earnings Call

EVENT DATE/TIME: JULY 26, 2019 / 12:00PM GMT

OVERVIEW:

Co. reported 2Q19 results. Expects 2019 adjusted EPS to be $7.50-8.00.

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

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

Mark J. Costa *Eastman Chemical Company - Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Aleksey V. Yefremov *Nomura Securities Co. Ltd., Research Division - Research Analyst*

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

Frank Joseph Mitsch *Fermium Research, LLC - Senior MD*

James Michael Sheehan *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Jeffrey John Zekauskas *JP Morgan Chase & Co, Research Division - Senior Analyst*

John Ezekiel E. Roberts *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

Kevin William McCarthy *Vertical Research Partners, LLC - Partner*

Laurence Alexander *Jefferies LLC, Research Division - VP & Equity Research Analyst*

Michael Joseph Sison *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

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

Patrick Duffy Fischer *Barclays Bank PLC, Research Division - Director & Senior Chemical Analyst*

Robert Andrew Koort *Goldman Sachs Group Inc., Research Division - MD*

Vincent Stephen Andrews *Morgan Stanley, Research Division - MD*

PRESENTATION

Operator

Good day, everyone, and welcome to the Eastman Chemical Company Second Quarter 2019 Conference Call. This call is being broadcast live on the Eastman's website, www.eastman.com. As a reminder, today's conference is being recorded.

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

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

Okay. Thank you, Ebony, and good morning, everyone, and thanks for joining us. On the call with me today are Mark Costa, Board Chair and CEO; Curt Espeland, Executive Vice President and CFO; and Jake LaRoe, Manager, Investor Relations.

Before we begin, I'll cover 2 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 the company's second quarter 2019 financial results news release, during this call and in the accompanying slides and in our filings with the Securities and Exchange Commission, including the Form 10-K filed for 2018, the Form 10-Q for first quarter 2019 and the Form 10-Q to be filed for second quarter 2019.

Second, earnings referenced in this presentation exclude certain noncore and unusual items and interim period earnings use an adjusted forecasted tax rate. Reconciliations to the most directly comparable GAAP financial measures and other associated disclosures, including a description of the excluded and adjusted items, are available in the second quarter 2019 financial results news release, which can be found on our website, www.eastman.com in the Investor section. Projections of future earnings exclude any noncore, unusual or nonrecurring items.

With that, I'll turn the call over to Mark.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Thanks, Greg, and good morning, everyone. I'll begin on Page 3. I'll start with the strategic highlights from the second quarter. We continued on our path of solid sequential earnings growth after challenging fourth quarter of [2018] (corrected by company after the call)and start to this year.

Adjusted EBIT increased 11% sequentially in the face of continued global uncertainty and weak underlying demand in many of our end markets. From our perspective, the uncertainty around trade began in the fourth quarter of last year and was escalated in May, and as a result, in the challenging global macroeconomic environment, which we're continuing to work through. Despite these challenges, we're still on track for greater than $400 million of new business revenue closes from innovation in 2019, with a 27% growth in the second quarter year-over-year.

I've been on the road globally with many of our customers recently and their focus on strong engagement with us on innovation has never been higher, especially on sustainability, which is encouraging in this environment. Leading the charge and innovation and market development is Advanced Materials, which posted excellent sequential growth in the second quarter. The sequential growth was delivered by specialty plastics led by Tritan.

We also offset the underlying decline in the auto market with strong growth in premium products like our paint protection film, premium auto interlayers as well as strong growth in architectural interlayers. These products, among others, show the resiliency of our innovation model that offset general macroeconomic weakness.

I should note that we're also making great progress on innovation initiatives in Additives & Functional Products with commercial orders confirming the value of what we do. That said, we're in a much earlier stage of development in AFP than in AM.

As we discussed before, we're aggressively managing costs in this challenging business environment. Overall, we're reducing costs by $120 million, that includes $80 million in offsets of inflation. In addition, in this environment, we have another $40 million in cost actions that we took in April that will mostly impact the second half of the year, which we're on track to deliver.

Consistent with our strategy to remain disciplined on capital deployment, we recently completed a small bolt-on acquisition of INACSA, a Spanish cellulosic yarn company that will accelerate the growth for our textiles innovation products like Naia. We're excited to have the INACSA team as part of Eastman, and the integration is off to a great start.

Lastly, we returned $423 million to stockholders in the first 6 months of 2019 through a combination of share repurchases and an increasing dividend. This included $125 million of share repurchases in the second quarter.

Before I turn over to Curt for a review of the corporate and segment performance in the quarter, I'd like to add how proud I am of our employees around the world who continue to execute our strategy, while also aggressively managing costs in this challenging environment. Curt?

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

Thanks, Mark, and good morning, everyone. I'll start on Slide 4 with a review of our corporate results. And I'll begin with a sequential comparison where our second quarter revenue declined slightly and adjusted EBIT increased 11%. The increase in earnings was driven by a strong sequential volume and mix growth in Advanced Materials and continued cost management across the company. On a corporate basis, EBIT increased 170 basis points sequentially with the margin increase in all segments except Chemical Intermediates.

Turning next to the year-over-year comparison. Revenue and earnings decreased as macroeconomic uncertainty and the slower demand in some of our key end markets in China and Europe, both of which we believe are primarily related to global trade issues, negatively impacted volume and mix. The decrease was also attributed to an unfavorable shift in foreign currency exchange rates and a decline in spreads for some chemical intermediate products.

Before I get to the segments, I'll give you our macroeconomic assumptions for the remainder of the year, which have changed. We are now expecting current challenging global market conditions to continue, driven by uncertainty around trade issues. And just to be clear, we are not expecting underlying macroeconomic conditions to improve or deteriorate from what we experienced in the second quarter. We do believe that inventory destocking is mostly behind us and therefore, our specialty volumes will grow but will be modestly offset by higher shutdown schedule in second half of '19 impacting volumes in Chemical Intermediates. And we are expecting oil prices and the related raw materials to remain around current levels, which will be a benefit to second half as lower costs flow through inventory.

Turning now to Slide 5 and Advanced Materials, where significant progress on innovation and market development is positioning us to be resilient despite the challenging global economy. Starting with the sequential comparison. Volume and mix increased 7% due to an easing of customer destocking, particularly with specialty plastic product lines, such as Tritan and continued great progress on innovation and market development.

Adjusted EBIT increased 42% sequentially, with roughly 2/3 of the increase driven by improved volume and mix and the remainder from a combination of improved spreads as lower cost paraxylene is beginning to flow through, and cost management. And the EBIT margin increased 530 basis points sequentially given these factors plus improved fixed cost leverage.

Turning to the year-over-year comparison. Revenue declined due to lower sales volume and a stronger dollar. While we had strong volume growth sequentially as destocking slowed, we still haven't reached our year ago volume levels due to the weakness in global demand related to the trade issues. One market, in particular, that has been under pressure is transportation, which represents about 1/3 of the revenue for this segment. Despite this exposure, EBIT increased as improved mix due to strong growth of premium products, including paint protection film and acoustic and architectural interlayers more than offset the lower volume and the impact of the stronger dollar.

Advanced Materials also did nice job holding onto prices and managing their costs. The EBIT margin year-over-year was up 110 basis points. Looking ahead, we expect earnings in the second half of the year to be higher than the first half for a few reasons: first, lower cost raw materials are set to flow through in the back half of the year; second, while we don't project underlying demand fundamentals to improve in the second half of the year, destocking looks like it is mostly behind us and is, therefore, no longer expected to be a headwind; and third, we expect to realize lower costs from the actions we have taken. When we put it all together, we expect Advanced Materials' EBIT to be up mid-single digits for the year, which would be outstanding results in this environment.

Turning next to Additives & Functional Products on Slide 6. Adjusted EBIT was solid at $147 million, relatively flat from the first quarter as we saw stability in volume/mix with a modest decline in prices offset by cost actions. Year-over-year revenue declined due to lower volume and mix as well as lower selling prices in an unfavorable currency. The volume and mix decline was about 2/3 unit volume and 1/3 mix. Volume growth in Care Chemicals and architectural coatings was more than offset by declines adhesives and tires and some consumer discretionary markets. In particular, China and Europe have slowed due to the anxiety caused by global trade issues, particularly the U.S.-China dispute. At the same time, we believe destocking that began in the fourth quarter continued through the second quarter. As we look forward, we believe that destocking should mostly be behind us, so volume should improve in second half of '19.

Mix was unfavorable, primarily due to lower sales of high-value cellulosic additives into the auto OEM markets in China and Europe compared to the prior year, which quite honestly was a tough comp. Pricing was somewhat lower with the largest contributor being cost pass-through contracts in Care Chemicals and a few other products, with the remainder due to competitive rivalry in adhesives and tire additives.

And the impact of swine fever in China increased competitive rivalry in the Animal Nutrition business in the second quarter. EBIT declined year-over-year due to the lower volume and mix as well as the stronger dollar, partially offset by continued cost management.

Spreads were similar to last year as lower raw material costs were offset by price declines. With spreads stable, the entirety of the margin decline in AFP is due to lower asset utilization related to sluggish demand. Looking forward, given our economic assumptions, we expect EBIT in the second half of the year to increase slightly versus the first half due to higher volume as we believe the destocking is mostly behind us.

On Slide 7, I'll move to Chemical Intermediates. Year-over-year revenue decreased, primarily due to lower selling prices for both olefins and acetyl products resulting from raw material price declines and increased competitive activity. As the trade dispute continues to drag out, competitors in China are getting increasingly aggressive and are starting to try to place volume outside of Asia, particularly in Europe, causing additional competitive rivalry. In addition, sales revenue was impacted by lower functional amines product sales volume attributed to weakened demand in agricultural end markets, due in part to wet weather in North America.

EBIT decreased slightly as lower spreads were mostly offset by lower costs. These lower costs included: the supplier operational disruptions in the second quarter of 2018, not recurring this year; lower plant maintenance cost in the quarter; and continued cost management.

Looking to the back half of the year, we are seeing spreads in acetyls and glycol stabilizing at second quarter levels, and we expect to carry this run rate into the remainder of the year. And consistent with our corporate guidance, we are not projecting an improvement in underlying demand in the back half. Stabilized but lower spreads, coupled with higher shutdown schedule in the second half of the year compared to the first, led us to expect that EBIT in the second half will be lower than the first half.

Finishing up the segment reviews on Slide 8 with Fibers. Starting with the sequential comparison, sales revenue was flat, while adjusted EBIT increased $9 million or 21%. The sequential increase was due primarily to cost management and slightly higher tow sales. And I'd add that the EBIT margin increased 420 basis points sequentially to 24%. Year-over-year sales revenue decreased, primarily due to lower acetate tow sales volume attributed to weakened market demand resulting from global trade-related pressures and general market decline. In addition, demand in 2018 was unusually high in the first half of the year due to trade issues and multinational customers' buying patterns.

EBIT decreased due to lower acetate tow sales volume, partially offset by lower raw material cost and continued cost management. As we move into the second half of the year, we expect earnings improvement compared to the first half for a few reasons: first, we continue to make progress qualifying tow at our Korean facility with CNTC, and as a result, we expect improved Chinese demand for the remainder of the year; second, the overall textile market was soft in the first half due to general macro uncertainty, resulting in destocking for some of the traditional end market applications. We see signs that the dynamic is improving in the second half and we'll continue to benefit from greater than 25% growth in our textiles innovation initiatives.

And finally, we continue to aggressively manage costs in this business. Putting it all together, including the promised improvement in the second half, we expect Fibers' adjusted EBIT to be in the $200 million to $210 million range for full year of '19.

Finally, on Slide 9, I'll cover some financial highlights. We plan to continue our track record of solid free cash flow conversion and expect to generate free cash flow approaching $1.1 billion in 2019. Despite lower projected net income, we remain confident in our ability to generate solid free cash flow through a variety of levers, including aggressive working capital management. Consistent with our capital deployment, we have remained disciplined in our allocation of cash, including returning $423 million to stockholders in the first 6 months of '19. We're excited about the value creation from our recent 2 bolt-on acquisitions: first in the first quarter; and the last one, that Mark mentioned, here in July and continue to look forward to value-creating opportunities.

Consistent with previous expectations, we'll delever as needed to keep our solid investment grade credit rating likely in the $250 million to $300 million range this year. For corporate other, consistent with our run rate in the first half, we expect the full year to be around $60 million. And finally, we continue to expect our full year projected tax rate to be between 16% and 17%.

And with that, I'll turn it back to Mark.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Thanks, Curt. On Slide 10, I'll provide an update on our 2019 outlook. In the first half of the year, we've been challenged by weak macroeconomic environment, which began in the fourth quarter of 2018. We believe it's primarily caused by global trade tensions, including the U.S. and China trade dispute. Dispute was escalated in May and there are no signs of when it will be resolved. The impact has been significant destocking across supply chains as well as reduced demand, and we've seen this most prominently in China and Europe.

In particular, we have seen a meaningful impact on consumer discretionary markets like autos and consumer durables, especially in China and Europe. We've also seen challenges in ag and animal nutrition end markets with weather and the swine flu in China. This is all much different than what we had expected in our last call in April, and I would add this dynamic environment has made order patterns more volatile and the outlook for the global demand more opaque. And we expect the lower volume will continue to negatively impact fixed cost leverage in the back half of the year. With that said, we're taking actions on what we can control to offset the impact of this environment. We continue to make significant progress driving growth in our new business revenue closes from innovation as we leverage our innovation-driven growth model. You're seeing how this works with the first half results of Advanced Materials and our expectations for the year in this business, which reflect a strong contribution for new business revenue closed from innovation to offset weakness in key end markets like autos. And I'm confident you'll see accelerating new business revenue growth in AFP that will add to their resiliency as we scale up their innovations in the future. In addition, we're aggressively managing costs in this business environment by taking out $120 million of cost to deliver a net $40 million reduction in costs.

Finally, we're expecting lower costs raw materials to flow through into our results in the second half, improving spreads over last year in the specialty businesses. As we think about Q3, we have an unusually high shutdown schedule, potential for a limited amount of additional destocking, and we can all recognize the exceptionally uncertain environment we live in today. So expect Q3 will be similar to Q2 in EPS, and you'll not see the normal drop in Q4. When I put this all together, we expect our full year adjusted EPS to be in the range of $7.50 to $8.00 a share, and this includes a headwind of about $0.50 a share from currency and pension.

On cash, we expect our free cash flow to approach $1.1 billion as we take actions to generate cash in this environment. Given the challenges we're facing, I view these as solid results, and again a testament to the resiliency of our business model and the execution of our team. It's just robust and it gives me confidence in our future. Despite the exceptionally challenging environment, we're well positioned for long-term attractive earnings growth and sustainable value creation from our owners and all of our stakeholders.

Our results demonstrate that our innovation-driven growth model is delivering, as we create our own growth through innovation and leadership in specialty markets. We continue to win with customers every day. And as I saw in my travels around the world recently, we have unparalleled engagement levels with our customers to innovate, a hallmark of what differentiates us.

Our focus on what we can control is working as we continue to reduce our cost to accelerate top line growth to the bottom line. And most important, we have the dedication and drive of people of Eastman who rides the challenge everyday and prove that they win no matter what the headwinds are. Though they figured our team and the reason we're winning with so many customers today. In the end, it's our collective determination in the face of challenges that make me so confident in our future.

With that, I'll turn it over to Greg.

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

Thank you, Mark. There are a lot of people on the line as usual this morning and we'd like to get you as many questions as possible, so I ask you to please limit yourself to one question and one follow-up.

With that, Ebony, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Vincent Andrews with Morgan Stanley.

Vincent Stephen Andrews - *Morgan Stanley, Research Division - MD*

I guess, my question is just -- as we exit '19 and if we assume there's some trade resolution hypothetically for the start of 2020, should we envision a snapback in earnings? Sort of if '19 is a throwaway year and '20 goes back to the trend rate you're on before then? Or should we think about '19 being a new base off of which there will be some level of growth in 2020?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

So first of all, I think it's a little hard to predict 2020 at this point. But to answer your question, the challenges that we have predominantly this year -- fourth quarter of last year as well as this year are a volume mix-based story. And it's important to emphasize the mix part of this too because a lot of the consumer discretionary markets that we sell to are very high-value additives. So if the trade war gets resolved or stimulus in China works despite a neutral trade situation that starts getting the business confidence and China confidence back up, that drives China growth back into gear, which also will improve European economy as well in a substantial way, You will get to snapback. You'll get not just volume recovery and primary demand, but restocking associated with people going back to more normal inventory levels compared to where there are now, which is exceptionally low. And it's a mirror image. The earnings on the volume mix side come back the same way they dropped this year. So you would get a very good recovery on that front. On the volume mix side. We obviously have taken cost out and so you get the fixed cost leverage that comes with that as well as you go into next year. On spreads though, I would assume spreads stay relatively neutral because in recovering economy, raws will go up, we'll increase prices to keep up with raws like we did last year. So it will still be a volume mix story just on the other side.

Vincent Stephen Andrews - *Morgan Stanley, Research Division - MD*

Okay. And Curt, if I could just ask you on the cash flow. Obviously, very strong performance year-to-date despite the earnings challenges. When you talk about improved working capital performance, should we be thinking that the work you're doing this year is going to lead to sustainably different or better working capital ratios that we can build into next year? Or is these just extraordinary efforts you're making this year given the challenging macro circumstances?

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

Yes. Thanks, Vince. No, what you see right now is our free cash flow has been kind of running similar to last year. Again, we got a lot of talented people helping us manage cash flow across the company. What I'd say is on the working capital side, we'll be aggressive. Normally, we'd see working capital relief second half of the year. In addition, you're getting some benefits of the flow-through of low raw material value. So that's helping. And then we are taking some additional steps to address our working capital across different fronts, multiple fronts quite honestly. And so yes, I would expect that to improve some of our working capital statistics. And I would say, that's not an improvement this year, I think it's a multi-year effort as well that will help contribute to, again, a wonderful free cash flow story with our business, which following up on Mark's other question, we'd also expect our free cash flow to improve in that kind of environment as well. And so a lot of the free cash flow of this company that reflects the quality of our businesses and that free cash flow is coming to you for those that decided to own our stock and the free cash yield approaching 10%.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. I would just add on that -- on Curt's comment on the 2020, not only you get the earnings back when the demand recovers and the cash comes with it, you also pull inventory down in that environment. So it could be quite strong.

Operator

We'll take our next question from Jeff Zekauskas with JPMorgan.

Jeffrey John Zekauskas - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Your sales were down in The United States in the second quarter year-over-year. Why was that? What's shrinking in the U.S. and what's growing?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Sure, Jeff. The principal driver of the drop in revenue in the U.S. is pricing in Chemical Intermediates. So you have to remember that unlike many other companies out there, the predominance of our Chemical Intermediates business is located in North America. So a vast majority of that revenue and the price decline is reflected there. So we don't -- the good news is we also don't face the much more competitive dynamics in Asia or Europe for those kind of products where the prices are even much lower than where we are today. So that's part of the story. And then demand is just a bit off of some destocking and careful behavior like -- as well as things like the wet weather in ag that's driven that revenue down with the planting season being curtailed.

Jeffrey John Zekauskas - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And secondly, perhaps I missed it in your discussion. So far, fibers demand this year is down 11% roughly or in volume terms? What's behind that? And is -- was that your outlook at the beginning of the year?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

The outlook was for the first half to be challenged on volume relative to the second half, so that was our outlook. This is playing out as we expected. It's really about timing of orders on 2 fronts, Jeff. So on the customer buying patterns, the big multinationals, 2018 first half was just exceptionally high relative to second half of last year. There just tends to be chunkiness in how they order and that's what was the pattern last year. And then on top of that, you had some trade-related issues as well that drove some pre-buy in Q2 not in China, but in some other countries worried about trade that pre-bought around trade uncertainty. And then you had, of course, good orders in China in the first half of the year for tow imports that dropped pretty significantly as we went into the second half. So it's all a timing issue. So what you'll see is we had these 2, the first half drop and then the second half will be some improvement over last year.

Operator

Next question will come from David Begleiter with Deutsche Bank.

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

Mark, in AF&P given the challenge results in the first half of the year and full year, any concerns that this business may not be special as perhaps you thought it might be?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

I was guessing that question might come this morning. No, I'm not concerned about the specialty nature of this business. So just to start off with the fact that in Q2, which is obviously a challenging quarter for us, we had 25% EBITDA margins, which, I think, demonstrate very high-quality earnings. But much more importantly, you got to decompose the story into its components to really understand what's going on. So first of all, the price side of the equation, which, I think, is the bigger test than the volume question around the specialty nature of business, I think we're actually doing quite well on managing price here. So when we look at a price decline of 3%, half of that, as we told you, is cost pass-through contracts, predominantly in Care Chemicals and then a few other products. So the spreads are absolutely stable, and we're driving good volume growth in those product areas, but there's so much volatility in raws on those specific products. We neutralized that volatility with the CPT.

The other half is competitive pressure. So talking about a 1.5% decline here year-over-year due to some competitive factors. And in that, there's really sort of 3 stories, but the underlying story is the same at a high level in all 3. So you've got some pressure in insoluble sulfur and tires, you have some pressure in adhesive resins and a few animal nutrition products. And if you look at the last decade, we've always had tremendous growth in China, leading the world in growth. And as you look at these product areas, we're running out of capacity in all of them and because demand was so strong globally that we added capacity to serve growth in these areas and our competitors did too. So you certainly have this capacity being added in the last year to support growth because the markets were tight. At the same time for the first time in the last decade, we've had a big drop in demand in China. So you have a competitive situation. But the good news about all 3 of those things is there's strong underlying growth. There's a long-term belief that China is going to grow as a market beyond what's going on here in the short term.

And importantly and key to our strategy, unlike our competitors in these specific areas, is that we have innovation strategies to extend and add more differentiation and growth to these businesses. So in all 3, we've launched a new Crystex Cure Pro product that demonstrates far superior mixing efficiency to our competitors, product trials going on every where, getting orders, but it's early. Same thing in adhesives, very strong underlying market growth in hygiene and other products that will absorb the capacity over time, but a hit in packaging, tapes, labels right now creating some demand space. But more importantly, we're adding a new no-odor, no-volatile organic product. That is a significant differentiator. There's very high demand that will be online by the end of this year. Same thing on nutrition. We're moving from just selling the organic acids into formulated products and have tremendous growth there.

So while the timing is not great, if this this trade war happened 2 years from now into the future, it looked more like AM. These products would all be in market, having a lot more traction, helping offset some of the underlying demand problem. So net, spreads are flat. We don't have spread compression in this segment, but some of the raw material tailwind has been offset by some of these prices. The key here is the volume mix story. And as Curt mentioned, the volume parts, the unit volumes that are coming off principally because of the demand and then you've got the mix story with cellulosic additives and a few other high-margin additives. So it's a volume mix story, some negative fix cost leverage that comes with that and that's the entirety of the margin percentage story. So we don't think this is commoditizing.

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

Very helpful. And Curt, just on the shutdown costs in Q3, could you quantify those versus Q2?

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

Yes. What I'd say just in general shutdown costs as a whole, they're only modestly higher year-over-year, but the trend of the shutdown costs are different. Where in the last couple of years, we've had higher shutdown costs in second quarter and fourth quarter. This year, it's more going to be in third quarter and fourth quarter. So the sequential year-over-year impact on third quarter is going to be just over $30 million higher shutdown costs third quarter of this year compared to third quarter of last year. Now what that means is you won't have -- last couple of years, you'd had more headwind from third quarter going into fourth quarter, where this year, the shutdown costs will be roughly the same third quarter and fourth quarter.

Operator

We'll take our next question from Aleksey Yefremov with Nomura Instinet.

Aleksey V. Yefremov - *Nomura Securities Co. Ltd., Research Division - Research Analyst*

In tire additives market, could you describe what's happening with demand there? And also, could you tell us whether pricing continues to come down or has stabilized after recent declines?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

So on the demand side, this is actually predates the Trump initiated China-U.S. trade dispute. There was a number of antidumping duties put in place by Europe and the U.S. on truck tires that dramatically constrained where the Chinese tire producers could sell their products, backing up a lot of that production into China, helped multinationals and we've benefited from that in North America and Europe, but obviously China is a huge tire production market and that got very competitive when those companies didn't have any market access. And the market has been growing really fast. So not only did tire companies add a lot of capacity to support this growth that they were expecting that did not materialize, we have some competitors who are also adding capacity to sort of serve that growth. So I mean that really is the story on the demand side. And overall, market is obviously down. The truck tire market is off with lower commercial activity. The OEM production market is off. But it's important to remember that 75% of tires are replacement as opposed to new production, but it's still connected to commercial activity and we are highly levered to commercial activity and our product that we sell, our largest product, insoluble sulfur, so when that comes off, you're going to feel that demand hit.

On the price side. I think prices have come off due to that competitive dynamics we described and it appears to have stabilized in the second quarter from what we can see demand is going to improve as we work through this destocking as we go into the back half of the year.

Aleksey V. Yefremov - *Nomura Securities Co. Ltd., Research Division - Research Analyst*

And as a follow-up on amines, you mentioned a few challenges with demand. How is your inventory in amines? And how is the inventory across the industry?

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

I can't speak to the industry. I would say what you have across many of our businesses, whether it's amines or others, we kind of got our production planning for an improvement for the second half of the year versus the first. And so now we're just adjusting operating rates where some areas weren't as strong, including amines, where you didn't have that seasonal improvement in demand as much as we had hoped given the weather. But we're managing our inventory in operations as we adjust to demand as we do across all our portfolio.

Operator

Moving next to Duffy Fischer with Barclays.

Patrick Duffy Fischer - *Barclays Bank PLC, Research Division - Director & Senior Chemical Analyst*

First question just around the cost-cutting program. You had the net $40 million in kind of before things got worse than you expected. Should we expect another major program in the back half of the year or early next year if these conditions continue?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

So as we look at our cost structure, obviously, we saw some uncertainty in the macroeconomic environment back in April when we took additional actions to cut costs and $40 million is on top of the $80 million offset inflation is a pretty aggressive program. We don't think there is another step of additional costs that we're going to take in this current economic environment that's substantial. I mean we're obviously going to manage costs aggressively wherever we can, but we have a tremendous amount of growth where we have an innovation. We have tremendous engagement in customers that we have to serve. We have to maintain and run our plants reliably in this environment, and I think we're getting to that point. And we have one of the lowest cost of SG&A and R&D as a percentage of sales in the industry for the kind of innovation we're doing, we're in the bottom quartile. So I think we've always run our company very efficiently. Now obviously, if we go into a bigger, more significant drop in demand due to global recession kind of environment, we will have additional actions we can take in cutting costs because we have a good amount of variable cost in our large integrated plans and how we run them over time and contractors.

Patrick Duffy Fischer - *Barclays Bank PLC, Research Division - Director & Senior Chemical Analyst*

And then just on your commentary that Q3 looks like Q2, so right at $2 a share. And then to get to the midpoint of your annual guidance, that would be about $2 a share then in the fourth quarter, which is up almost 45% year-on-year. Can you either walk from Q3 into Q4, how you keep things flat? Or Q4 over Q4, how would you improve it 40%? Why does fourth quarter look so much different than it has historically?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. It first starts with why is Q3 so different and then I think it's easier to talk about Q4. So in Q3, we do expect improvement to be sequentially strong from Q2 to Q3, but it's been offset due to the higher shutdown schedule. Normally high shutdowns in Q2 and Q4. This year, it's just different where we have our largest cracker that we're taking down and a bunch of other shutdowns that we're doing in Q3. So you've got this headwind from Q2 to Q3. And on a year-over-year basis, as Curt noted, about $30 million difference versus last year in Q3 due to that shutdown schedule. Now we're taking overall cost down just to be clear. It's just a timing issue, but when costs show up and you have these period costs with the shutdown in Q3.

So as you go to Q4, you would normally have this headwind, it was roughly $30 million last year from Q3 to Q4 that knocks earnings down sequentially Q3 to Q4. You're not going to have that this year. So that's part of the explanation. You don't have that headwind.

Second, Q4, I think, is not going to be your typical Q4. You've got innovation and market development, that's continuing to drive growth and create growth, which is great. That will help have volume be better. You have companies that are already destocked to some degree. There will still be volume lower in Q4 versus Q3 due to seasonal patterns, but probably not as much destocking as normal. You've got cost flowing through on raw materials. And because volume hasn't been strong, taking longer for that to flow through, but it will certainly start showing up in Q4 as we look at it as well as the manufacturing cost reductions flowing through, and we're LIFO accounting shop to keep in mind. So you have all these dynamics playing on that will allow Q4 to be quite good. And if you're comparing it specifically to last year, you got to remember that last year is a really easy comp. Not only did you have the $30 million headwind in shutdowns from Q3 to Q4 last year, you had dramatic reduction in plant rates to adjust the destocking and volume drops last year and high cost raws flowing through last year versus this year of low cost raws flowing through. So all that combines together to give us confidence about how we're guiding.

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

And if I could just add, the sequentially impact of those shutdown impacts second quarter and third is roughly $20 million compared to that $30 million year-over-year period.

Operator

We'll take our next call from Jim Sheehan with SunTrust.

James Michael Sheehan - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

So longer term, I think you've planned for the innovation-led business model to lift your gross margins higher than they are today. Where are your gross margins per unit tracking? And how do you plan to improve that metric over the next 12 months?

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

Well, at our Innovation Day, we talked about a growing EBITDA margin. We're probably a couple of percentage points below that. Part of that is going to be that volume mix because we're not getting all the specialty business sales that we promised back at our Innovation Day and that's just because of the macroeconomic environment. So I still believe we can get back to those margins that we talked about at our Innovation Day across our portfolio. A part of that is, again, getting those specialty sales back to where we think they're going to be and that was to one of the earlier comments today getting back to what more robust economy would support. And then top of it, it's the fixed cost leverage to get across the portfolio because we've added some areas of new capacity. We have room to grow into those and then just we have an environment where it's kind of sluggish. But once we get back on track in those specialty areas, you're going to love the fixed cost leverage we're going to get in both Advanced Materials and Additives & Functional Products.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. I just want to add, mix is an incredibly powerful tool in the center and heart of our strategy. So as we're growing high-margin products through innovation above segment and the company average in AM and AFP, you just get a powerful lift in your margin, and you see that and how AM recovered from Q1 to Q2 and how it's going to deliver earnings growth for the full year. But unfortunately, if you have a demand contraction like AFP has right now, you're going to feel that mix hit. And really in Q2, it was really substantial that cellulose additives that we sell and a few of these other additives that go into automotive market are very high value. And so we really felt that mix hit to this year. And last year, Curt mentioned, it was a tough comp. Last year, it wasn't just demand that was good, we also had some pre-buy associated with sort of trade fear in China and some restocking with the coal gas event in Q2. So it was really tough comp for that specific area inside AFP versus last year.

James Michael Sheehan - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Great. And then in adhesive resins, you've been talking about competitive pressure in that market for quite some time. When do you expect to see some easing in the general market conditions? And also, when do you expect your low VOC product to start gaining traction and we start seeing better numbers in that business?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

And so I think 2019 is the year where things are bottoming out. It's a little hard to call the quarter on it, but prices have stabilized. The demand situation is great in hygiene, which continues to drive growth and absorb capacity. But a few of the other markets that are more packaging, tapes, labels, things like that, it's obviously more caught up in the macro environment and demand is off, which will obviously I think stabilize and get better as we move forward. So I think it's playing out this year.

When it comes to the innovation products, there are 2 sets of innovation products. Directly in resins, we have this load or low volatile product that has been verified by our customers to be the best in the market. We're getting all the trials going on now, plants being modified to be able to make it. The good news is, it's just a modification of existing asset, we don't have to build a new plant. So we'll be online selling that product next year and that will really help.

We also have great success in polyolefins. So we make and sell amorphous polyolefins for this market, having great growth and that's a new area for us that we haven't been in and we're really getting a lot of adoption on some new products area that dramatically improved the hot-melt adhesives for hygiene and some other applications. So several avenues of growth to stabilize and grow that business while we work through this new capacity in the market.

Operator

We'll take our next question from P.J. Juvekar with Citi.

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

So you mentioned that due to the weakness in China, producers there are getting more aggressive and placing product in Europe. Can you talk about what products or what chains is this occurring in? Is that a long-term trend you see? Or is this something near term, short term because of weakness in China?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

So the example, I think, would be adhesives, where you see some of that capacity in Asia getting placed in Europe that was intended to support growth in China. So that will be an example. Animal nutrition will be the other example, where you have a bunch of capacity that was added in China to serve animal nutrition. And with the swine population being decimated in China, people are looking for another home for that. None of these actually create long-term concern for us, P.J. Because, obviously, the Chinese have to eat and so they're going to grow more pigs and absorb that capacity again. And same thing is true about hygiene growth and everything else inadhesives, as that demand recovers, it will start absorbing it back into China. Then that applies to the rest of the story. The industry has never been through a story where China is the problem and they've been the source of growth to absorb capacity being added in Asia as well as other markets and now they're not, so that just creates a different dynamic.

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

Fair enough. And then a quick question for Curt. Curt, you talked about doing bolt-on M&A like you did in the first half. Has there been any change in valuations of deals you're looking at given the downturn? And would you say that would you look at deals more abroad given your more of a heavy footprint in the U.S.?

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

Yes, thanks for the question. Now we're excited about, again, the bolt-ons we completed so far this year, good businesses, great people, nice synergies, all the things we look for in acquisitions. We continue to have an active pipeline. I wouldn't say our activity is increasing because multiples coming down because we've always been a disciplined party. Maybe it is a contributing factor we're able to get deals done more, but the businesses we've been talking to had reasonable valuation expectations. And so to the extent the market is more conducive to reasonable multiples, we'll continue to increase our activity.

When I think about the rest of this year just to kind of level set that, we'll continue to be active. I mentioned some amount of acquisitions we can do, roughly $100 million this year, it's possible. But right now, we have nothing imminent in our portfolio on acquisitions, but we're still actively working in our pipeline and we'll continue to be disciplined as you've seen over the years with our acquisition strategy.

Operator

We'll take our next question from Frank Mitsch with Fermium Research.

Frank Joseph Mitsch - *Fermium Research, LLC - Senior MD*

Eastman started to see a return in rush orders in the May and early June time frame, which kind of indicated that business was getting a bit better and there was no inventory at the customer levels and EPS growth for 2019 was very much still on the table. So I'm curious what have you specifically seen since the mid-June till today time frame to take any EPS growth off the table?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Sure, Frank. Yes, it's obviously been a pretty dynamic time and predicting demand and orders has been tricky for a while now. In the second quarter, we were on track up through the first week of June with demand. The trends we saw that we thought we're in the range that we gave you in April. And then in the last 2 weeks of June, we just saw a dramatic slowdown in the orders relative to what should have been a normal order pattern in June leading up to the G20 Meeting. So from what I can figure out, people got very nervous about what's going to happen in that meeting and they also decided to start imagining inventory down and reducing their orders given that risk. And we actually saw the exact same thing in the last 2 weeks of February, headed up to the March 1 deadline when people were worried about the U.S. tariff. So I think there's this sort of push-pull kind of thing around economic uncertainty that's driving some behavior, and so that was part of it. There's no question that we saw there was more risk on the table after the May escalation in the trade war. And that risk, as you got through G20 got confirmed, that there was no end in sight about this trade war, now at a higher level of tariffs and more disagreement than less certainly from where we saw the world in April on how this was going to get settled.

So as you looked at that, we had a step back and revise our macroeconomic assumptions. I think everyone in April thought and through beginning of May at least that the economy was going to get better in the back half of the year, trade war is going to sort of settle, certainly not escalate. And now we're just in different world where I don't think that's true, and I think many of our peers and other people and the macro data support that, there's not a lot of signs of economic recovery coming in the second half. So we had to revise our assumption down on that. And it's not just about China. When you think about that, Europe is highly dependent on trade to China and there's other factors obviously going on in Europe. So that economy has slowed down. That's led to a lot of destocking and expectation, lower demand, automotive and other consumer discretionary markets taking the primary hit as people are cautious.

I mean, reality is if you look at the last 3 quarters, you can say we're in an industrialization recession now. Industrial production is down. Even in AFP, as I look at the demand story there, 1/3 of it's mix and the other part being unit volume, we're not really losing much share, maybe 1% of that 8% is about share loss in these competitive stories I was just telling. Demand is down even in AFP. If you look at all of our peers who have industrial exposed, we're in a negative demand situation. So that's the kind of environment we now have to adjust to, and we thought it would stabilize and better and we revised our assumption. Now obviously, if the economy gets better, so are our results, but that's what we're operating under and then you've got some additional things like this ag and animal nutrition story as well. So that's really sort of what drove our reduction combined with spreads being a little bit more challenged in CI than we had expected that we will expect to sort of continue at this level going forward. We don't think it will get worse, but we don't see why it will get better.

Frank Joseph Mitsch - *Fermium Research, LLC - Senior MD*

That's very helpful, Mark. And then Curt, the company has been doing a nice job and it's $125 million per quarter pace on share buybacks. Are there any factors that might influence either up or down? Or should we really anticipate Eastman continuing on that pace?

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

As we know the capital allocation is committed to a lot of different areas, one of those is also debt we pay down, that $250 million to $300 million level. Share repurchases will be pretty disciplined. The only thing that could adjusted if we do an acquisition that will come out of that share repurchase bucket. So you can do the math of that, Frank, and we typically do a dollar average approach throughout the year.

Operator

Our next question will come from John Roberts with UBS.

John Ezekiel E. Roberts - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

I think I saw some IHS data that said cigarette demand in China was up 6% to 7% year-to-date. I guess, people maybe smoke a little bit more in a weaker economic or in more uncertain environment. So do you think that's correct? And maybe could you reconcile that to your -- the outlook for your business?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Sure. So as you know, since 2014 and now, there's been a dramatic drop in the amount of imports into China and we do have a JV in China, it's running full and making good profits to the story and the demand you're talking about. But the total imports into China now are just incredibly low in total compared to where we were. So the growth that you're talking about is being served by plants owned by CNTC in China. And then on top of it with the trade war, we're not seeing that benefit in the last 3 quarters because the CNTC chose not to buy from plants in the U.S. Now we'll get some of that demand back and benefit from some of the story you're talking about as we get the Korea plant qualified into the back half of this year, but that's really sort of the difference.

Operator

Moving next to Mike Sison with KeyBanc.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Mark, if you think about the earnings reduction from April, it's about $0.10 from FX, a little bit from the shutdown, how much volume do you need to get in the businesses to sort of recoup the rest at some point in time?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

So our current guidance assumes, as Curt indicated, that there's going to be some modest improvement in demand, principally because destocking is not occurring anymore as a way specialties can grow. Obviously, we'll not be selling a bunch of Chemical Intermediates products. We're just not producing because of the larger shutdown, so that sort of nets the corporate volume down to being more modest. So that's embedded in our guidance and what we expect. And that's really by far the largest driver in the change of our guidance from April to now is this revision on the volume mix expectation going forward, combined with a bit lower spreads in CI and this currency headwind.

I would also note that probably you're not going to get quite as much raw material tailwinds out of AFP, but that's a minor part of the story relative to volume mix part of it and that's the change in our outlook. It's something I'd emphasize on this and why I'm very confident about that moving forward is we just need the economy to get a bit better and confidence return where people want to go back to normal inventory levels and we can get as a strong recovery in earnings at some point back to comments I made earlier. And that's, I think, a compelling position to be in where I would manage costs very aggressively. And Chemical Intermediates, that's in the specialties. In Chemical Intermediates, you have to get markets to get really tied again for those spreads to come back because not only is demand off but supply has been out in a lot of those kind of products. So I feel really good about how specialties going to recover and I feel good about that 70% of our earnings, where Chemical Intermediates has now been reduced to much smaller percentage of our portfolio. And I'm also proud of the actions we've taken to mitigate some of the volatility with the RGP investment. So I even think Chemical Intermediates is performing relatively well to the market and how we both kept price reductions at a minimal level given our North American position, a great team execution as well as investments like RGP to reduce volatility.

Michael Joseph Sison - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Right. So as a quick follow-up then in AFP and AM, is it fair to say the bulk of the volume that you need in the second half is kind of new products and to some degree within your control?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

It's in our control to some degree, which is -- no question innovation is driving a lot of growth especially in AM. As I mentioned, the innovation platforms are really exciting in AFP, but just at an earlier stage and that's why you see the difference between AM and AFP on sort of the demand story, but we'll get there over the next couple of years. And we are assuming destocking is playing its way out. I think it's a key macroeconomic assumption we're making. We're assuming some residual destock in Q3, but that is a key assumption of that why demand gets better in the second half versus the first half.

Operator

We'll take our next question from Bob Koort with Goldman Sachs.

Robert Andrew Koort - *Goldman Sachs Group Inc., Research Division - MD*

Just wondering if you can talk a little bit about the way you guys buy paraxylene and how that would flow through into the income statement? What the lag is until we actually see on the cost of goods line?

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

If I think about the Advanced Materials segment specifically in specialty plastics, I think their inventory turns probably in that 5- to 6-month range. So the inventory turns are long just because of the supply chain that we have there, maybe 4 to 6 months is how I'd characterize the inventory turn and how long it takes for that lower paraxylene to show itself.

Robert Andrew Koort - *Goldman Sachs Group Inc., Research Division - MD*

Would that imply, Curt, that we'd see this nice decline in the last couple of months will show up probably in the fourth quarter, maybe early next year?

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

I think that will be a good way. Just the only thing I'd add on top, just don't forget we're LIFO shop. But yes, I would take that kind of time period to see this kind of paraxylene flow-through and this business does a nice job getting pricing relative to its performance characteristics, and so that should help the margins of this business second half of this year and definitely going into next year.

Robert Andrew Koort - *Goldman Sachs Group Inc., Research Division - MD*

Then on AM, I haven't heard you guys call out architectural interlayers that often. Could you give some scale or scope of how big that business is? And how those margins might stack up against the segment average?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. Architecture was about half of the interlayer business inside Advanced Materials and it's been great. It's primarily commercial buildings predominantly in Europe, where the code drivers use of laminated glass and it's just been delivering strong growth last year and this year with the amount of commercial building activity there, and we have a lot of good premium products as well.

Operator

We'll take our next question from Kevin McCarthy with Vertical Research Partners.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

Mark, as you look broadly across the portfolio, are there examples of product lines where your July order books or your visibility into 3Q is materially better or worse than the average 2Q levels, any outliers on that front?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

So I mean, when I look at it, demand in July is holding up quite well across the company on the order books. We're seeing good growth and I should say stability relative to June and July. I've also learned my lesson at this point not to predict demand for the quarter based on order books in any one month because there's just too much volatility out there. But what I'd say overall is orders are holding up well.

Kevin William McCarthy - *Vertical Research Partners, LLC - Partner*

Okay. And then second one, if I may, on Advanced Materials just to kind of follow up on the prior thread of discussion like you indicated back half better than the front half in terms of the earnings prospects there. If I look at the 5 years prior, the opposite has been true. And so I guess my question is, are there other factors besides the flow-through of lower paraxylene costs that are helping you in the back half in that business that you would call out?

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

So a couple of things, one, again, what you already mentioned the flow-through low raw materials. Also keep in mind, the fourth quarter last year was a pretty down year for that segment just because of the amount of destocking that occurred in the fourth quarter. And so that to me is a big factor as well and then the cost reduction activities will help benefit that businesses like, well, the rest of the segments.

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. The other key is there's a lot of destocking in the first half of this year that's not remotely normal. We believe this played itself out as we go into the back half and obviously that creates the distortion first half, back half.

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

Ebony, let's make the next question the last one, please.

Operator

And we'll take our final question from Laurence Alexander with Jefferies.

Laurence Alexander - *Jefferies LLC, Research Division - VP & Equity Research Analyst*

Just quickly then, can you tie your comments on destocking to how you're thinking about the risk of extended customer shutdowns in either August or into year-end? And can you touch briefly on -- as we get back to the discussion about the snapback scenario whether your customers are giving feedback that they are concerned about a recurrence of trade wars and therefore tighter inventory policies even if this trade war is resolved?

Mark J. Costa - *Eastman Chemical Company - Chairman & CEO*

Yes. So in general what I'd say is people have taken a very tight inventory strategy for the last 3 quarters. I mean we've been working things down pretty aggressively given the level of uncertainty that we face and there is a limit. Once you get inventories very low, you can't go any further than on that, unless there is a fundamental step down in demand. So I think we have customers already live in sort of at very short order patterns and very tight inventory management.

To your first question, Laurence, on the extended shutdowns, I mean, that would be potential risk to our forecast if there was very significant shutdown of the auto industry that's not in our current forecast. That would push us to the lower end of our range as opposed to somewhere else.

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

Okay. Thanks again, everyone, for joining us this morning. This call will be available on replay on our website this afternoon. We hope you have a great day.

Operator

Again, this does conclude today's call. Thank you for your participation. You may now disconnect.