



Rating
Buy

North America
United States

Industrials
Chemicals / Specialty

Company
Eastman Chemical

Reuters
EMN.N

Bloomberg
EMN UN

Exchange
NYS

Ticker
EMN

Date
29 July 2014

Results

Price at 29 Jul 2014 (USD)	81.52
Price target	100.00
52-week range	90.20 - 72.67

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Share Price Decline Unwarranted

Concerns overdone. Valuation compelling at 10.6x '15E vs Dow at 14.8x. Buy

Eastman shares fell 8% despite a solid Q2 beat and the reaffirming of '14 guidance as investors focused on i) new '15 guidance of \$7.50-\$8.00 (vs \$8 previously) and ii) a lowering of '14 Fibers (largest and highest margin segment) EBIT guidance by 6%. We believe investor concerns are overdone as i) Eastman has been backing away from the \$8 target for months and, as evidenced by consensus of \$7.77, was not viewed as achievable either and ii) Fibers is under-earning in '14 due to destocking, lower demand and reduced operating rates. With valuation a compelling 10.6x '15 EPS vs 14.8x for Dow and Q2 evidencing a more predictable and resilient earnings generator, Buy.

Q2 beats by \$0.08. '14 guidance of \$6.70-\$7.00 reaffirmed (cons: \$6.93)

Eastman reported Q2 EPS of \$1.92, up 7%, and \$0.08 or 4% above consensus. An unplanned outage at Eastman's Kingsport plant reduced sales by \$10MM (in Specialty Fluids & Intermediates (SFI)), EBIT by \$10MM (evenly divided between Advanced Mat'ls, Fibers and SFI) and EPS by \$0.05. Prior to the outage, consensus was \$1.88. A lower than expected tax rate added \$0.01. The upside was driven by stronger than expected results in Adhesives & Plasticizers (AP) and SFI. Sales rose 1% on flat volumes and price while FX added 1%. EBIT fell 3% to \$441MM while margins compressed 70bps YoY (+130 QoQ) to 17.9% on higher propane costs. Eastman repurchased \$100MM of stock in Q2 and has \$640MM left under its \$1B authorization. Eastman reaffirmed its full year guidance range of \$6.70-\$7.00, up 4-9% (cons: \$6.93).

Lowering '14E EPS by \$0.05 to \$6.90. Lowering '15E EPS by \$0.05 to \$7.70

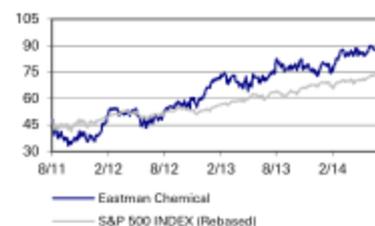
Notwithstanding a solid Q2 release, Eastman shares fell 8% due to concerns over lowered '15 EPS and '14 Fibers guidance. Another driver, in our view, was the wide \$0.30 guidance range for 2H14 as it implies a high degree of volatility in Eastman's business. A slight narrowing of the range to \$6.75-\$6.95, in our view, would have alleviated this concern. For 2H14, we expect slightly lower EPS for Eastman due to destocking in Fibers, a slowdown in heat transfer fluids (China) and a planned outage at the company's largest ethylene cracker in Longview, TX (\$20MM, or \$0.10 impact in Q4). Looking ahead to '15, we believe Fiber earnings will recover modestly post destocking and lower plant operating rates in '14. While we concur with Eastman's view that Fiber earnings are plateauing, we believe EBIT will be higher in '15 at ~\$500MM vs the depressed level of \$480MM in '14. And with EBITDA of \$550MM and capex of just \$50MM, Fibers should be strong source of cash to fund growth (M&A, buybacks). For all of '15, we believe Eastman has a number of tailwinds that should drive earnings well above \$7.50 including: normalized operations (outages/turnarounds: \$0.20), lower propane costs (\$0.15-\$0.20), acquisitions (\$0.10-plus), base business growth (\$0.35) and share buybacks (\$0.20). To reflect lower Fibers earnings, we are trimming our '14E EPS by \$0.05 to \$6.90, up 7% and our '15E by \$0.05 to \$7.70 up 12%.

Forecasts And Ratios

Year End Dec 31	2013A	2014E	2015E
FY EPS (USD)	6.44	6.90	7.70

Source: Deutsche Bank estimates, company data

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-6.7	-5.4	8.6
S&P 500 INDEX	0.5	4.9	16.9

Source: Deutsche Bank

Target price of \$100

Our \$100 target price is based on Eastman trading at 13x '15E EPS in 12mos, a 12% discount to its differentiated chemical peer Dow. Risks: weaker tire demand, increased leverage and the Solutia integration.

Deutsche Bank Securities Inc.

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Figure 1: Eastman Q2 2014 Results (\$ in millions)

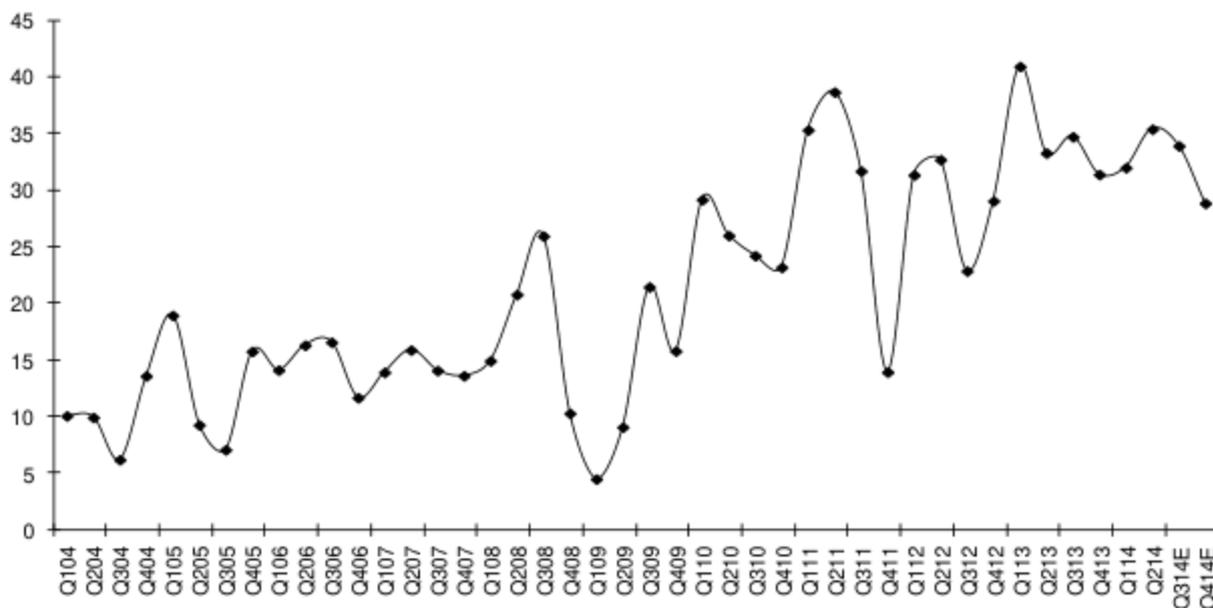
Segment	Q2'14	Q2'13	% change	Comment
Sales	\$2,460	\$2,440	1%	Vols: flat, Price: flat, FX: +1%. Marginal sales growth as higher demand in Additives & functional, Adhesives & plasticizers and Fibers offset by lower demand in Specialty fluids & intermediates. Acquired BP's aviation turbine oil business for \$283MM. <i>Outlook: FY'14 Expects sales to grow at global GDP growth rate in H2'14.</i>
Additives & Functional Products	\$452	\$430	5%	Vols: +4%, Price: flat, FX: +1%. Upside driven by higher demands for coating product lines partially offset by continues destocking in China (primarily for commercial tires). <i>Outlook: Expects vols to be better in H2'14.</i>
Adhesives & Plasticizers	\$358	\$339	6%	Vols: +9%, Price: -4%, FX: +1%. Upside led by higher sales vols for adhesives resins and plasticizers more than offsetting lower selling prices due to cont'd competitive pressure as increased supply of adhesive resins and weak plasticizers demand in APac and Europe regions.
Advanced Materials	\$631	\$625	1%	Vols: flat, Price: flat, FX: +1%. Lower sales growth as higher vols for premium products like interlayers with acoustic properties and Eastman Tritan™ copolyester offset by weak demand for Flexvue coated films. <i>Outlook: Expects sales growth to be in the range of 4%-5% in H2'14 on higher demand for premium products.</i>
Fibers	\$386	\$363	6%	Vols: +2%, Price: +4%, FX: flat. Higher growth driven by improved selling prices and sales of acetate flake to EMN's China acetate tow joint venture more than offsetting by lower vols of acetate tow due to additional industry capacity. <i>Outlook: Expects lower sales vols in H2'14</i>
Specialty Fluids & Intermediates	\$633	\$677	(6%)	Vols: -8%, Price: +2%, FX: flat. Downside due to the unplanned shutdown of the plant (due to power disruption) and lower sales vols for intermediates product line partially offset by improved vols of acetyl-based products.
Operating profit	\$441	\$454	(3%)	Downside primarily due to higher raw material costs, outage costs alongside competitive pressure in core products partially offset by better product mix.
Additives & Functional Products	\$103	\$105	(2%)	Weakness due to higher raw mat. & energy costs (esp propane) partially offset by higher vols. <i>Outlook: FY'14 EBIT: -\$410-\$430MM.</i>
Adhesives & Plasticizers	\$56	\$50	12%	Higher earnings due to improved vols, better productivity and lower operating costs partially offset by lower prices. <i>Outlook: FY'14 EBIT: Expects to be more than \$175MM.</i>
Advanced Materials	\$80	\$81	(1%)	Relatively flat as lower raw material & energy costs offset by costs of the unplanned shutdown. <i>Outlook: FY'14 EBIT: -\$280-\$300MM</i>
Fibers	\$123	\$116	6%	Upside led by higher prices coupled with increased sales of acetate flake to JV and lower raw material costs more than offsetting lower tow acetate vols and higher operating costs. <i>Outlook: FY'14 EBIT: -\$480MM</i>
Specialty Fluids & Intermediates	\$96	\$118	(19%)	Downside due to lower vols, higher raw material. & energy costs (esp propane) alongside costs of the unplanned shutdown at the Kingsport site. <i>Outlook: FY'14 EBIT: -\$300-\$320MM</i>
Operating margin	17.9%	18.6%	-70bps	
Additives & Functional Products	22.8%	24.4%	-160bps	
Adhesives & Plasticizers	15.6%	14.7%	+90bps	
Advanced Materials	12.7%	13.0%	-30bps	
Fibers	31.9%	32.0%	-10bps	
Specialty Fluids & Intermediates	15.2%	17.4%	-230bps	
Interest Expense	(\$45)	(\$46)	(2%)	
Other Income/Expense	\$8	\$0		
Pretax profits	\$404	\$408	(1%)	
Taxes	(\$112)	(\$124)		
Tax rate	28%	30%	-	<i>Outlook: FY'14: -28.0%</i>
Non-controlling Int	(\$2)	(\$2)	0%	
Earnings from ops	\$290	\$282	3%	
One time items	\$0	(\$18)		



Income from discount. Ops	\$2	\$0		
Reported net inc.	\$292	\$264		
Earnings per share (EPS)	\$1.92	\$1.80	7%	<i>FY'14 Guidance: \$6.70 - \$7.00, '15 Guidance: \$7.50 - \$8.00</i>
Cash flow items	Q2'14 Cash: \$175MM, CFO: +\$419MM, Capex: \$132MM, Acquisition: \$283MM, FCF: \$234MM, Dividends: \$53MM, Repurchase: \$100MM. <i>Outlook: FY'14 Capex: \$575MM, FCF: \$600MM.</i>			

Source: Deutsche Bank

Figure 2: US Propane to Propylene spread (c/lb) in poised to fall in Q3'14 vs Q2'14 due to modestly higher propane prices



Source: Deutsche Bank, Eastman, IHS Chemical



Q2 Results

Eastman reported Q2 EPS of \$1.92, up 7%, and \$0.08 or 4% above consensus of \$1.84. A lower than expected tax rate added \$0.01. The upside was driven by stronger than expected results in Adhesives & Plasticizers and SFI. Sales rose 1% on flat volumes and price while FX added 1%. EBIT fell 3% to \$441MM while margins compressed 70bps YoY (+130 QoQ) to 17.9% amid higher propane costs. Eastman reaffirmed '14 EPS guidance of \$6.70-\$7.00, up 4-9% YoY (consensus: \$6.93).

Additives & Functional Products sales rose 5% on 4% higher volumes on improved coatings demand (building and construction, transportation). EBIT fell 2% to \$103MM (cons: \$104MM) while margins compressed 160 bps to 22.8% on higher propane prices.

Adhesives & Plasticizers sales rose 6% on 9% higher volumes partially offset by 4% lower price. EBIT rose 12% to \$56MM (cons: \$45MM) as adhesive demand appears to have turned the corner following last year's sharp declines and a shift towards Eastman's non-phthalate plasticizers owing to substitution away from phthalate plasticizers. Margins expanded 90 bps to 15.6%.

Advanced Materials sales rose 1% on flat volumes and price while FX added 1%. EBIT fell 1% to \$80MM (cons: \$87MM) as margins compressed 30 bps to 12.7% owing to the impact of the Kingsport outage.

Fibers sales rose 6% on 4% higher price and 2% higher volume. EBIT climbed 6% to \$123MM (cons: \$126MM) while margins compressed 10 bps to 31.9%.

Specialty Fluids & Intermediates sales fell 6% on 8% lower volume due to the Kingsport outage partially offset by 2% higher price. EBIT fell 19% to \$96MM (cons: \$81MM) and margins compressed 220 bps to 15.2% on higher propane costs and the effects from the Kingsport outage.

Figure 3: Q2 '14 segment sales % change (YoY)

	Volume	Price	FX	Total
Additives & Functional Products	4%	-	1%	5%
Adhesives & Plasticizers	9%	(4%)	1%	6%
Advanced Materials	-	-	1%	1%
Fibers	2%	4%	--	6%
Specialty Fluids & Intermediates	(8%)	2%	--	(6%)
Total	-	-	1%	1%

Source: Eastman



2014 Segment Outlook

Figure 4: 2014E Segment Operating Earnings Guidance and Drivers(\$ in millions)

Segment	2014E	2013	%Δ	Comments
Additives & Functional Products	\$410-430	\$406	1%-6%	(+) Higher vols as improvements in the transportation and building & construction markets (-) Partial offset by contracted olefin spread.
Adhesives & Plasticizers	>\$175	\$173	1%	(+) Improved vols, better productivity and lower operating costs (-) Competitive pricing pressure in plasticizers
Advance Materials	\$280-\$300	\$260	8%-15%	(+) Increased volume and mix improvement. (-) Costs of the unplanned shutdown.
Fibers	~\$480	\$462	4%	(+) Strong acetate flake volume, lower raw material costs and higher selling prices. (-) Lower tow acetate vols and higher operating costs
Specialty Fluids & Intermediates	\$300-\$320	\$364	(12%-18%)	(-) Volatility of key raw materials (primarily propane) and unplanned shutdown. (+)Technology licensing revenue to negate the impact of raw material volatility.

Source: Eastman

Figure 5: 2014 olefins spread impact

Full year projected olefins prices

Propane	\$1.18/gallon
Ethane	\$0.29/gallon
Propylene	\$0.70/lb
Ethylene	\$0.46/lb

Actions to offset headwinds

Increasing use of ethane relative to propane as a feedstock
 Hedging program mitigates propane costs exposure
 Pricing actions expected to partially offset higher feedstock costs

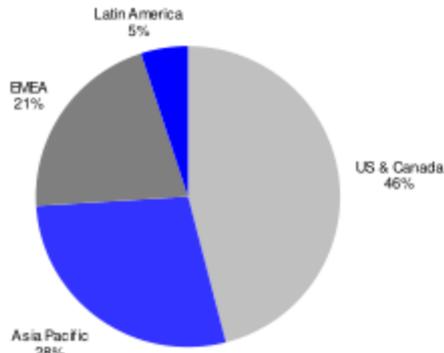
Narrowing olefins spreads projected to negatively impact 2014

EPS relative to 2013 by \$0.30 to \$0.40

Source: Eastman, NYMEX, IHS

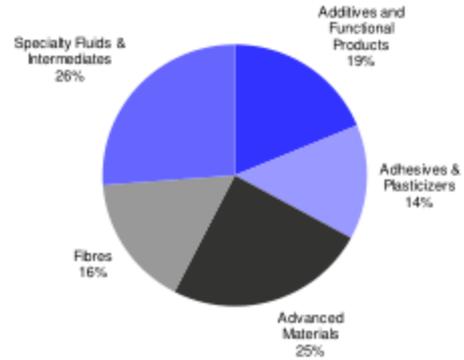


Figure 6: 2013 Geographic Sales Analysis



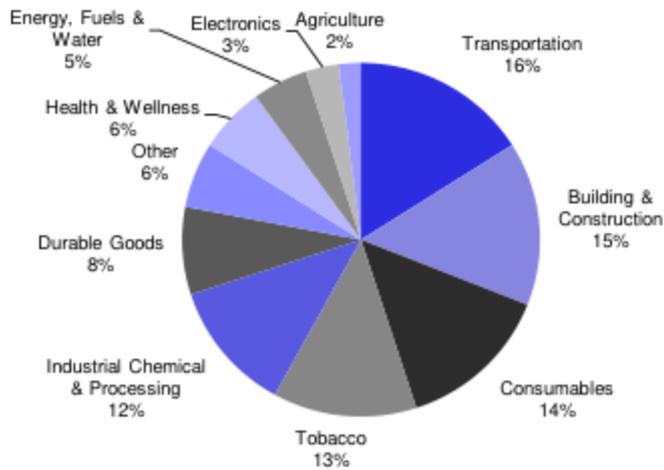
Source: Eastman

Figure 7: 2013 Segment Sales Analysis



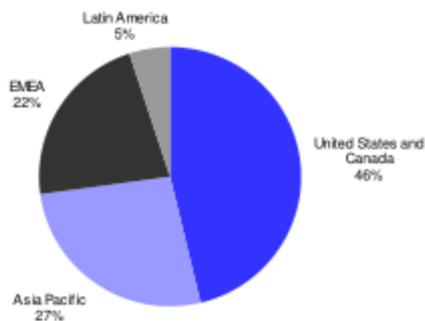
Source: Eastman

Figure 8: 2013 sales by end-market



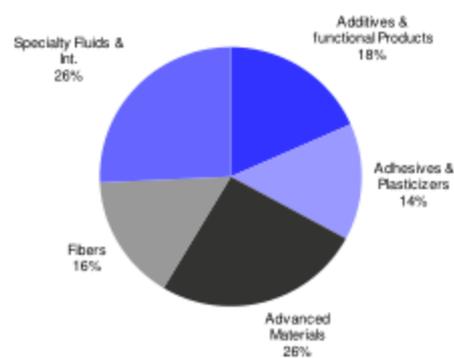
Source: Eastman

Figure 9: 2Q'14 Sales by Region



Source: Eastman Chemicals

Figure 10: 2Q'14 Sales by Segment



Source: Eastman Chemicals



Valuation

Our \$100 target is based on Eastman trading at 13x 2015E EPS in 12 months, a 12% discount to its closest differentiated chemical peer Dow, which trades at 14.8x '15E EPS. We believe this multiple is warranted given the progress made integrating Solutia and cost synergies already realized. With the new Eastman becoming a more consistent, stable and predictable earnings generator, we believe Eastman's discount versus its main differentiated peer, DOW will begin to close. Our valuation is further supported by our estimate of Eastman's return on invested capital of 11.2% in 2013E and 11.2% in 2014E and our analysis showing a strong correlation ($R^2 > 70\%$) between chemical sector valuations and returns on capital.

Risks

Downside risks to our forecasts include increased leverage (~2.8x debt/EBITDA) a failure to achieve Solutia acquisition synergies, increases in propane and paraxylene prices (Eastman's two largest raw materials), a narrowing of the US Gulf Coast propane-propylene spread, price erosion within Additives and Functional Products, additional acetate tow capacity and lower global demand.



Figure 11: Eastman Annual Income Statement 2011-2015E (\$ in millions, except per-share data)

	2011	2012	2013	2014E	2015E
Sales	7,178	8,102	9,350	9,533	9,915
% Change	11%	13%	15%	2%	4%
Cost of Sales	(5,538)	(5,978)	(6,939)	(7,068)	(7,272)
Gross Profit	1,640	2,124	2,411	2,465	2,643
Gross Margin	22.8%	26.2%	25.8%	25.9%	26.7%
% Change	8%	30%	14%	2%	7%
Selling & Administrative	(469)	(607)	(624)	(625)	(645)
SG&A/Sales	6.5%	7.5%	6.7%	6.6%	6.5%
% Change	4%	29%	3%	0%	3%
Research & Development	(158)	(198)	(196)	(210)	(218)
R&D/Sales	2.2%	2.4%	2.1%	2.2%	2.2%
% Change	(1%)	25%	(1%)	7%	4%
(S&A+R&D)/Sales	8.7%	9.9%	8.8%	8.8%	8.7%
Operating Profit	1,013	1,319	1,591	1,630	1,780
Operating Margin	14.1%	16.3%	17.0%	17.1%	18.0%
% Change	11%	30%	21%	2%	9%
EBITDA	1,305	1,689	2,021	2,086	2,245
Operating Margin	18.2%	20.8%	21.6%	21.9%	22.6%
% Change	11%	29%	20%	3%	8%
Interest Expense	(76)	(134)	(180)	(181)	(188)
% Change	(23%)	76%	34%	1%	4%
Other Income/Expense	19	10	(3)	11	0
Pretax Income	956	1,195	1,408	1,460	1,592
Pretax Margin	13.3%	14.7%	15.1%	15.3%	16.1%
% Change	20%	25%	18%	4%	9%
Taxes	(304)	(391)	(393)	(407)	(446)
Tax Rate	31.8%	32.7%	27.9%	27.9%	28.0%
Net Income Attributable to Noncontrolling Interests	0	(2)	(7)	(7)	(8)
Net Income	652	802	1,008	1,046	1,138
Net Margin	9.1%	9.9%	10.8%	11.0%	11.5%
% Change	24%	23%	26%	4%	9%
Basic Shares Outstanding	139.7	145.5	154.0	149.4	145.4
% Change	(3%)	4%	6%	(3%)	(3%)
Diluted Shares Outstanding	143.0	148.9	156.5	151.5	147.8
% Change	(3%)	4%	5%	(3%)	(2%)
Basic EPS	\$4.66	\$5.51	\$6.55	\$7.00	\$7.83
% Change	28%	18%	19%	7%	12%
Diluted EPS	\$4.56	\$5.39	\$6.44	\$6.90	\$7.70
% Change	28%	18%	20%	7%	12%

Source: Deutsche Bank estimates, Eastman



Figure 12: Eastman Quarterly Income Statement 2013-2014E (\$ in millions, except per-share data)

	2013					2014E				
	Q1	Q2	Q3	Q4	YEAR	Q1A	Q2A	Q3	Q4	YEAR
Sales	2,307	2,440	2,338	2,265	9,350	2,305	2,460	2,421	2,347	9,533
% Change	27%	32%	3%	4%	15%	(0%)	1%	4%	4%	2%
Cost of Sales	(1,691)	(1,763)	(1,717)	(1,768)	(6,939)	(1,710)	(1,791)	(1,781)	(1,787)	(7,068)
Gross Profit	616	677	621	497	2,411	595	669	641	561	2,465
Gross Margin	26.7%	27.7%	26.6%	21.9%	25.8%	25.8%	27.2%	26.5%	23.9%	25.9%
% Change	43%	41%	3%	(19%)	14%	(3%)	(1%)	3%	13%	2%
Selling & Administrative	(164)	(172)	(165)	(123)	(624)	(159)	(172)	(166)	(128)	(625)
SG&A/Sales	7.1%	7.0%	7.1%	5.4%	6.7%	6.9%	7.0%	6.9%	5.5%	6.6%
% Change	40%	50%	9%	(45%)	3%	(3%)	0%	1%	4%	0%
Research & Development	(49)	(51)	(51)	(45)	(196)	(53)	(56)	(54)	(48)	(210)
R&D/Sales	2.1%	2.1%	2.2%	2.0%	2.1%	2.3%	2.3%	2.2%	2.0%	2.2%
% Change	20%	19%	(2%)	(27%)	(1%)	8%	10%	5%	6%	7%
(S&A+R&D)/Sales	9.2%	9.1%	9.2%	7.4%	8.8%	9.2%	9.3%	9.1%	7.5%	8.8%
Operating Profit	403	454	405	329	1,591	383	441	421	385	1,630
Operating Margin	17.5%	18.6%	17.3%	14.5%	17.0%	16.6%	17.9%	17.4%	16.4%	17.1%
% Change	48%	41%	2%	1%	21%	(5%)	(3%)	4%	17%	2%
EBITDA	512	562	512	435	2,021	493	559	532	496	2,086
Operating Margin	22.2%	23.0%	21.9%	19.2%	21.6%	21.4%	22.7%	22.0%	21.1%	21.9%
% Change	48%	44%	0%	(1%)	20%	(4%)	(1%)	4%	14%	3%
Interest Expense	(47)	(46)	(44)	(43)	(180)	(42)	(45)	(47)	(47)	(181)
% Change	147%	142%	(8%)	(10%)	34%	(11%)	(2%)	7%	9%	1%
Other Income (Expense)	(1)	0	(1)	(1)	(3)	3	8	0	0	11
Pretax Income	355	408	360	285	1,408	344	404	374	338	1,460
Pretax Margin	15.4%	16.7%	15.4%	12.6%	15.1%	14.9%	16.4%	15.4%	14.4%	15.3%
% Change	38%	36%	2%	0%	18%	(3%)	(1%)	4%	19%	4%
Taxes	(101)	(124)	(96)	(72)	(393)	(96)	(112)	(105)	(95)	(407)
Tax Rate	28.5%	30.4%	26.7%	25.3%	27.9%	27.9%	27.7%	28.0%	28.0%	27.9%
Net Income Attributable to Noncontrolling Interests	(1)	(2)	(1)	(3)	(7)	(1)	(2)	(1)	(3)	(7)
Net Income	253	282	263	210	1,008	247	290	268	240	1,046
Net Margin	11.0%	11.6%	11.2%	9.3%	10.8%	10.7%	11.8%	11.1%	10.2%	11.0%
% Change	47%	43%	7%	12%	26%	(2%)	3%	2%	14%	4%
Basic Shares Outstanding	154.4	154.4	154.0	153.2	154.0	151.4	149.5	148.7	148.2	149.4
% Change	12%	12%	1%	(0%)	6%	(2%)	(3%)	(3%)	(3%)	(3%)
Diluted Shares Outstanding	156.7	156.7	156.4	155.6	156.5	153.0	151.3	151.1	150.6	151.5
% Change	11%	11%	0%	(1%)	5%	(2%)	(3%)	(3%)	(3%)	(3%)
Basic EPS	\$1.64	\$1.83	\$1.71	\$1.37	\$6.55	\$1.63	\$1.94	\$1.80	\$1.62	\$7.00
% Change	31%	28%	6%	13%	19%	(0%)	6%	6%	18%	7%
Diluted EPS	\$1.61	\$1.80	\$1.68	\$1.35	\$6.44	\$1.61	\$1.92	\$1.78	\$1.60	\$6.90
% Change	32%	29%	7%	13%	20%	(0%)	7%	6%	18%	7%

Source: Deutsche Bank estimates, Eastman



Figure 13: Eastman Annual Segment Income Statement 2011-2015E (\$ in millions, except per-share data)

	2011	2012	2013	2014E	2015E
Pro Forma/Actual Sales	<i>PF</i>	<i>PF</i>			
Additives & Functional Products	1,677	1,613	1,719	1,780	1,860
% Change	8%	(4%)	7%	4%	4%
Adhesives & Plasticizers	1,381	1,432	1,326	1,375	1,425
% Change	32%	4%	(7%)	4%	4%
Advanced Materials	2,313	2,254	2,349	2,370	2,500
% Change	12%	(3%)	4%	1%	5%
Fibers	1,279	1,315	1,441	1,500	1,525
% Change	12%	3%	10%	4%	2%
Specialty Fluids & Intermediates	2,548	2,473	2,497	2,505	2,600
% Change	34%	(3%)	1%	0%	4%
Total Segment Sales	9,198	9,087	9,332	9,530	9,910
Other	77	33	18	3	5
Sales	9,275	9,120	9,350	9,533	9,915
% Change	19%	(2%)	3%	2%	4%
Pro Forma/Actual Operating Profit	<i>PF</i>	<i>PF</i>			
Additives & Functional Products	382	393	406	415	454
Operating Margin	22.8%	24.4%	23.6%	23.3%	24.4%
% Change	3%	3%	3%	2%	9%
Adhesives & Plasticizers	250	263	173	185	195
Operating Margin	18.1%	18.4%	13.0%	13.5%	13.7%
% Change	34%	5%	(34%)	7%	5%
Advanced Materials	251	210	260	295	323
Operating Margin	10.9%	9.3%	11.1%	12.4%	12.9%
% Change	20%	(16%)	24%	13%	9%
Fibers	365	388	462	480	488
Operating Margin	28.5%	29.5%	32.1%	32.0%	32.0%
% Change	7%	6%	19%	4%	2%
Specialty Fluids & Intermediates	278	359	364	310	375
Operating Margin	10.9%	14.5%	14.6%	12.4%	14.4%
% Change	28%	29%	1%	(15%)	21%
Segment Operating Profit	1,526	1,613	1,665	1,685	1,835
% Change	15%	6%	3%	1%	9%
Other	(128)	(126)	(74)	(55)	(55)
Operating Profit	1,398	1,487	1,591	1,630	1,780
Operating Margin	15.1%	16.3%	17.0%	17.1%	18.0%
% Change	12%	6%	7%	2%	9%
Pro Forma/Actual EBITDA	<i>PF</i>	<i>PF</i>			
Additives & Functional Products	477	490	501	513	557
EBITDA Margin	28.4%	30.4%	29.1%	28.8%	29.9%
% Change	3%	3%	2%	2%	9%
Adhesives & Plasticizers	294	308	218	230	241
EBITDA Margin	21.3%	21.5%	16.4%	16.7%	16.9%
% Change	31%	5%	(29%)	6%	5%
Advanced Materials	386	347	404	443	477
EBITDA Margin	16.7%	15.4%	17.2%	18.7%	19.1%
% Change	14%	(10%)	16%	10%	8%
Fibers	433	457	527	545	554
EBITDA Margin	33.9%	34.8%	36.6%	36.3%	36.3%
% Change	7%	6%	15%	3%	2%
Specialty Fluids & Intermediates	358	440	444	395	467
EBITDA Margin	14.1%	17.8%	17.8%	15.8%	18.0%
% Change	23%	23%	1%	(11%)	18%
Segment EBITDA	1,948	2,042	2,094	2,126	2,296
% Change	14%	5%	3%	2%	8%
Other	(121)	(119)	(70)	(51)	(51)
EBITDA	1,827	1,923	2,024	2,075	2,245
EBITDA Margin	19.7%	21.1%	21.6%	21.8%	22.6%
% Change	11%	5%	5%	3%	8%
Interest Expense	(76)	(134)	(180)	(181)	(188)
% Change	(23%)	76%	34%	1%	4%
Other Income/Expense	19	10	(3)	11	0
Pretax Income	956	1,195	1,408	1,460	1,592
Pretax Margin	13.3%	14.7%	15.1%	15.3%	16.1%
% Change	20%	25%	18%	4%	9%
Taxes	(304)	(391)	(393)	(407)	(446)
Tax Rate	31.8%	32.7%	27.9%	27.9%	28.0%
Net Income Attributable to Noncontrolling Interests	0	(2)	(7)	(7)	(8)
Net Income	652	802	1,008	1,046	1,138

Source: Deutsche Bank estimates, Eastman



Figure 14: Eastman Quarterly Segment Income Statement 2013-2014E (\$ in millions, except per-share data)

	2013					2014E				
	Q1	Q2	Q3	Q4	YEAR	Q1A	Q2A	Q3	Q4	YEAR
Sales										
Additives & Functional Products	419	430	445	425	1,719	423	452	465	440	1,780
% Change	5%	2%	10%	11%	7%	1%	5%	4%	4%	4%
Adhesives & Plasticizers	345	339	321	321	1,326	345	358	335	337	1,375
% Change	(8%)	(9%)	(8%)	(5%)	(7%)	0%	6%	4%	5%	4%
Advanced Materials	584	625	583	557	2,349	581	631	590	568	2,370
% Change	3%	4%	4%	5%	4%	(1%)	1%	1%	2%	1%
Fibers	346	363	363	369	1,441	354	386	380	380	1,500
% Change	7%	14%	4%	14%	10%	2%	6%	5%	3%	4%
Specialty Fluids & Intermediates	607	677	620	593	2,497	601	633	650	621	2,505
% Change	(5%)	4%	5%	1%	1%	(1%)	(6%)	5%	5%	0%
Total Segment Sales	2,301	2,434	2,332	2,265	9,332	2,304	2,460	2,420	2,346	9,530
Other	6	6	6	0	18	1	0	1	1	3
Sales	2,307	2,440	2,338	2,265	9,350	2,305	2,460	2,421	2,347	9,533
% Change	(1%)	3%	3%	4%	3%	(0%)	1%	4%	4%	2%
Operating Profit										
Additives & Functional Products	98	105	111	92	406	94	103	110	108	415
Operating Margin	23.4%	24.4%	24.9%	21.6%	23.6%	22.2%	22.8%	23.7%	24.5%	23.3%
% Change	4%	0%	6%	3%	3%	(4%)	(2%)	(1%)	17%	2%
Adhesives & Plasticizers	49	50	41	33	173	47	56	45	37	185
Operating Margin	14.2%	14.7%	12.8%	10.3%	13.0%	13.6%	15.6%	13.4%	11.0%	13.5%
% Change	(26%)	(31%)	(44%)	(37%)	(34%)	(4%)	12%	10%	12%	7%
Advanced Materials	65	81	69	45	260	71	80	80	64	295
Operating Margin	11.1%	13.0%	11.8%	8.1%	11.1%	12.2%	12.7%	13.6%	11.3%	12.4%
% Change	7%	29%	21%	55%	24%	9%	(1%)	16%	42%	13%
Fibers	114	116	113	119	462	117	123	115	125	480
Operating Margin	32.9%	32.0%	31.1%	32.2%	32.1%	33.1%	31.9%	30.3%	32.9%	32.0%
% Change	13%	21%	15%	28%	19%	3%	6%	2%	5%	4%
Specialty Fluids & Intermediates	95	118	90	61	364	64	96	85	65	310
Operating Margin	15.7%	17.4%	14.5%	10.3%	14.6%	10.6%	15.2%	13.1%	10.5%	12.4%
% Change	30%	22%	(6%)	(34%)	1%	(33%)	(19%)	(6%)	7%	(15%)
Segment Operating Profit	421	470	424	350	1,665	393	458	435	399	1,685
% Change	7%	9%	(1%)	(2%)	3%	(7%)	(3%)	3%	14%	1%
Other	(18)	(16)	(19)	(21)	(74)	(10)	(17)	(14)	(14)	(55)
Operating Profit	403	454	405	329	1,591	383	441	421	385	1,630
Operating Margin	17.5%	18.6%	17.3%	14.5%	17.0%	16.6%	17.9%	17.4%	16.4%	17.1%
% Change	11%	13%	2%	1%	7%	(5%)	(3%)	4%	17%	2%
Pro Forma/Actual EBITDA										
Additives & Functional Products					501					513
EBITDA Margin					29.1%					28.8%
% Change					2%					2%
Adhesives & Plasticizers					218					230
EBITDA Margin					16.4%					16.7%
% Change					(29%)					6%
Advanced Materials					404					443
EBITDA Margin					17.2%					18.7%
% Change					16%					10%
Fibers					527					545
EBITDA Margin					36.6%					36.3%
% Change					15%					3%
Specialty Fluids & Intermediates					444					395
EBITDA Margin					17.8%					15.8%
% Change					1%					(11%)
Segment EBITDA					2,094					2,126
% Change					3%					2%
Other					(70)					(51)
EBITDA					2,024					2,075
EBITDA Margin					21.6%					21.8%
% Change					5%					3%
Interest Expense	(47)	(46)	(44)	(43)	(180)	(42)	(45)	(47)	(47)	(181)
% Change	147%	142%	(8%)	(10%)	34%	(11%)	(2%)	7%	9%	1%
Other Income (Expense)	(1)	0	(1)	(1)	(3)	3	8	0	0	11
Pretax Income	355	408	360	285	1,408	344	404	374	338	1,460
Pretax Margin	15.4%	16.7%	15.4%	12.6%	15.1%	14.9%	16.4%	15.4%	14.4%	15.3%
% Change	38%	36%	2%	0%	18%	(3%)	(1%)	4%	19%	4%
Taxes	(101)	(124)	(96)	(72)	(393)	(96)	(112)	(105)	(95)	(407)
Tax Rate	28.5%	30.4%	26.7%	25.3%	27.9%	27.9%	27.7%	28.0%	28.0%	27.9%
Net Income Attributable to Noncontrolling Interests	(1)	(2)	(1)	(3)	(7)	(1)	(2)	(1)	(3)	(7)
Net Income	253	282	263	210	1,008	247	290	268	240	1,046

Source: Deutsche Bank estimates, Eastman



Figure 15: Eastman Annual Cash Flow Statement 2011-2015E (\$ in millions)

	2011	2012	2013	Q1A	Q2A	2014E	2015E
Operating Activities:							
Adjustments to Reconcile Net							
Income to Cash From Operations							
Net Income	\$696	\$444	\$1,172	\$234	\$294	\$1,046	\$1,138
Depreciation and Amortization	273	360	433	107	110	445	465
Deferred Income Taxes	11	48	331	32	29	185	185
Mark-to-Market Pension & OPEB (Gains) Losses		247	(383)				
Pension and OPEB Contributions in Excess of Expenses		(97)	(149)	(12)	(33)	(135)	(135)
Variable Compensation in Excess of Expenses		26	82	(93)	40		
Asset Impairment Charges		46	28	8	0		
(Gain) Loss On Sale of Assets/Investments	(70)						
Other			0		(5)		
Change in Operating Assets and Liabilities							
Working Capital (Increases)	(370)	96	(46)	(255)	(34)	(7)	(50)
Other	85	(42)	(171)	(51)	18	(125)	(125)
Cash Flow From Operations	625	1,128	1,297	(30)	419	1,408	1,478
Free Cash Flow							
Cash Flow From Operations	625	1,128	1,297	(30)	419	1,408	1,478
Less: Capital Expenditures	(457)	(465)	(483)	(122)	(132)	(575)	(600)
Free Cash Flow	168	663	814	(152)	287	833	878
Less: Dividends	(136)	(192)	(140)	(53)	(53)	(212)	(226)
Free Cash Flow (EMN Definition)	32	471	674	(205)	234	621	652
Investing Activities:							
Capital Expenditures	(457)	(465)	(483)	(122)	(132)	(575)	(600)
Acquisitions	(156)	(2,669)			(283)	(370)	
Proceeds from Sale of Assets & Investments	651	207	31	4	8		
Additions to Short-Term Time Deposits	(200)						
Additions to Capitalized Software	(9)	(5)	(5)	(1)			
Other	29	(30)			2		
Total Investing Activities	(142)	(2,962)	(457)	(119)	(405)	(945)	(600)
Financing Activities:							
Inc. (Decr.) in L/T Debt	(2)	1,645	(955)	125	365	249	
Inc. (Decr.) in S/T Debt	1	(1)	425	257	(231)		
Dividends	(136)	(192)	(140)	(53)	(53)	(212)	(226)
Purchase of Treasury Stock	(316)		(238)	(260)	(100)	(500)	(600)
Dividends Paid to Noncontrolling Interests			(10)	(3)	(6)		
Proceeds from Stock Option Exercises				32	(2)		
Other	30	52	59				
Total Financing Activities	(423)	1,504	(859)	98	(27)	(463)	(826)
Effect of Exchange Rate Changes on Cash	1	2	7	(1)	3		
Increase (Decrease) in Cash	61	(328)	(12)	(52)	(10)	0	52

Source: Deutsche Bank estimates, Eastman



Figure 16: Eastman Annual Balance Sheet 2011-2015E (\$ in millions)

	2011	2012	2013	Q1A	Q2A	2014E	2015E
Assets							
Current Assets							
Cash and Equivalents	\$777	\$249	\$237	\$185	\$175	\$237	\$289
Accounts Receivables	632	846	880	998		880	915
Misc receivables	72	151	208	169		208	208
Inventories	779	1,260	1,264	1,377		1,285	1,323
Other Current Assets	42	88	251	220		251	251
Total Current Assets	2,302	2,594	2,840	2,949		2,861	2,986
Net Property, Plant and Equipment	3,107	4,181	4,290	4,301		4,790	4,925
Goodwill and Intangible Assets	406	4,493	4,398	4,374		4,398	4,398
Other Noncurrent Assets	369	351	317	323		317	317
Total Assets	6,184	11,619	11,845	11,947		12,366	12,626
Liabilities & Stockholders' Equity							
Current Liabilities							
Short-Term Debt	\$153	\$4	\$0	\$0		\$0	\$0
Accounts Payable	529	723	762	729		776	799
Accrued Liabilities	146	171	205	83		205	205
Accrued Income Taxes	40	76	80	65		80	80
Post-Employment Obligations	58	62	59	56		59	59
Interest Payable	26	59	46	36		46	46
Other Current Liabilities	162	269	318	290		318	318
Total Current Liabilities	1,114	1,364	1,470	1,259		1,484	1,507
Long-Term Debt	1,445	4,779	4,254	4,635	4,773	4,503	4,503
Deferred Income Taxes	210	91	496	546		681	866
Post-Employment Obligations	1,411	1,856	1,297	1,301		1,037	777
Other Long-Term Liabilities	134	501	453	398		453	453
Total Liabilities	4,314	8,591	7,970	8,139		8,158	8,105
Shareholders' Equity							
Common Stock	2	2	2	2		2	2
Additional Paid-in Capital	900	1,709	1,778	1,795		1,778	1,778
Retained Earnings	3,436	3,038	4,012	4,191		4,846	5,758
Accumulated other comprehensive loss	(538)	123	171	168		171	171
Treasury Stock	(1,930)	(1,929)	(2,167)	(2,427)		(2,667)	(3,267)
Noncontrolling interest		85	79	79		79	79
Total Shareholders' Equity	1,870	3,028	3,875	3,808		4,209	4,521
Total Liabilities & Stockholders' Equity	\$6,184	\$11,619	\$11,845	\$11,947		\$12,366	\$12,626

Source: Deutsche Bank estimates, Eastman



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Eastman Chemical	EMN.N	81.52 (USD) 29 Jul 14	14,15,17

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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Historical recommendations and target price: Eastman Chemical (EMN.N)
 (as of 7/29/2014)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	09/16/2011:	Buy, Target Price Change USD95.00	6.	02/03/2013:	Buy, Target Price Change USD85.00
2.	10/31/2011:	Buy, Target Price Change USD48.00	7.	07/30/2013:	Buy, Target Price Change USD100.00
3.	07/09/2012:	Buy, Target Price Change USD63.00	8.	10/28/2013:	Buy, Target Price Change USD95.00
4.	10/28/2012:	Buy, Target Price Change USD70.00	9.	04/28/2014:	Buy, Target Price Change USD100.00
5.	12/13/2012:	Buy, Target Price Change USD80.00			

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

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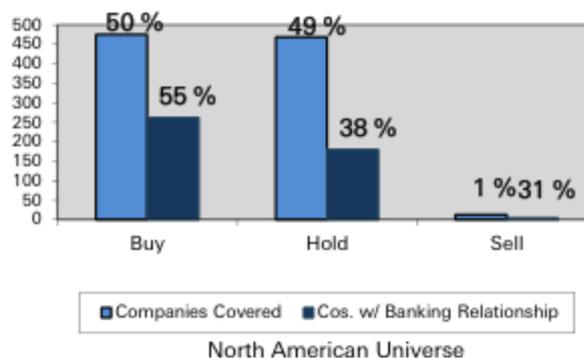
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Equity rating dispersion and banking relationships





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