

EASTMAN CHEMICAL CO
Form 10-Q
August 03, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q
(Mark
One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-12626

EASTMAN CHEMICAL COMPANY
(Exact name of registrant as specified in its charter)
Delaware 62-1539359
(State or other jurisdiction of (I.R.S. employer
incorporation or organization) identification no.)

200 South Wilcox Drive
Kingsport, Tennessee 37662
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (423) 229-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	(Do not check if a smaller reporting company)	<input type="checkbox"/>

Smaller
reporting
company
Emerging
growth []
company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

YES [] NO []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES [] NO [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Number of Shares Outstanding at June 30, 2018
Common Stock, par value \$0.01 per share	141,280,046

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FORWARD-LOOKING STATEMENTS

Certain statements made or incorporated by reference in this Quarterly Report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act (Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended). Forward-looking statements are all statements, other than statements of historical fact, that may be made by Eastman Chemical Company ("Eastman" or the "Company") from time to time. In some cases, you can identify forward-looking statements by terminology such as "anticipates", "believes", "estimates", "expects", "intends", "may", "plans", "projects", "will", "would", and similar expressions or expressions of the negative of these terms. Forward-looking statements may relate to, among other things, such matters as planned and expected capacity increases and utilization; anticipated capital spending; expected depreciation and amortization; environmental matters; exposure to, and effects of hedging of, raw material and energy prices and costs; foreign currencies and interest rates; disruption or interruption of operations and of raw material or energy supply; global and regional economic, political, and business conditions; competition; growth opportunities; supply and demand, volume, price, cost, margin and sales; pending and future legal proceedings; earnings, cash flow, dividends, stock repurchases and other expected financial results, events, and conditions; expectations, strategies, and plans for individual assets and products, businesses, and operating segments, as well as for the whole of Eastman; cash requirements and uses of available cash; financing plans and activities; pension expenses and funding; credit ratings; anticipated and other future restructuring, acquisition, divestiture, and consolidation activities; cost reduction and control efforts and targets; the timing and costs of, and benefits from, the integration of, and expected business and financial performance of, acquired businesses; strategic and technology and product innovation initiatives and development, production, commercialization and acceptance of new products, services and technologies and related costs; asset, business, and product portfolio changes; and expected tax rates and net interest costs.

Forward-looking statements are based upon certain underlying assumptions as of the date such statements were made. Such assumptions are based upon internal estimates and other analyses of current market conditions and trends, management expectations, plans, and strategies, economic conditions, and other factors. Forward-looking statements and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions and expectations proves to be inaccurate or is unrealized. The most significant known factors, risks, and uncertainties that could cause actual results to differ materially from those in the forward-looking statements are identified and discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors" in Part I, Item 2 of this Quarterly Report. Other factors, risks or uncertainties of which management is not aware, or presently deems immaterial, could also cause actual results to differ materially from those in the forward-looking statements.

The Company cautions you not to place undue reliance on forward-looking statements, which speak only as of the date such statements are made. Except as may be required by law, the Company undertakes no obligation to update or alter these forward-looking statements, whether as a result of new information, future events, or otherwise. Investors are advised, however, to consult any further public Company disclosures (such as filings with the Securities and Exchange Commission or in Company press releases) on related subjects.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS,
COMPREHENSIVE INCOME AND RETAINED EARNINGS

(Dollars in millions, except per share amounts)	Second Quarter		First Six Months			
	2018	2017	2018	2017		
Sales	\$2,621	\$2,419	\$5,228	\$4,722		
Cost of sales	1,917	1,789	3,943	3,487		
Gross profit	704	630	1,285	1,235		
Selling, general and administrative expenses	189	181	379	360		
Research and development expenses	60	58	116	115		
Asset impairments and restructuring charges, net	4	—	6	—		
Other components of post-employment (benefit) cost, net	(30)	(30)	(60)	(58)		
Other (income) charges, net	(10)	1	(56)	(3)		
Earnings before interest and taxes	491	420	900	821		
Net interest expense	61	61	120	121		
Earnings before income taxes	430	359	780	700		
Provision for income taxes	84	65	144	127		
Net earnings	346	294	636	573		
Less: Net earnings attributable to noncontrolling interest	2	2	2	3		
Net earnings attributable to Eastman	\$344	\$292	\$634	\$570		
Basic earnings per share attributable to Eastman	\$2.42	\$2.01	\$4.45	\$3.91		
Diluted earnings per share attributable to Eastman	\$2.39	\$2.00	\$4.39	\$3.89		
Comprehensive Income						
Net earnings including noncontrolling interest			\$346	\$294	\$636	\$573
Other comprehensive income (loss), net of tax:						
Change in cumulative translation adjustment			(34)	36	(7)	43
Defined benefit pension and other postretirement benefit plans:						
Amortization of unrecognized prior service credits			(8)	(6)	(15)	(13)
Derivatives and hedging:						
Unrealized gain (loss) during period			64	(18)	41	(39)
Reclassification adjustment for (gains) losses included in net income, net			(3)	8	(3)	4
Total other comprehensive income (loss), net of tax			19	20	16	(5)
Comprehensive income including noncontrolling interest			365	314	652	568
Less: Comprehensive income attributable to noncontrolling interest			2	2	2	3
Comprehensive income attributable to Eastman			\$363	\$312	\$650	\$565
Retained Earnings						
Retained earnings at beginning of period			\$7,026	\$5,925	\$6,802	\$5,721
Cumulative effect adjustment resulting from adoption of new accounting standards			—	—	16	—
Net earnings attributable to Eastman			344	292	634	570
Cash dividends declared			(78)	(75)	(160)	(149)
Retained earnings at end of period			\$7,292	\$6,142	\$7,292	\$6,142

The accompanying notes are an integral part of these consolidated financial statements.

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UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2018	December 31, 2017
(Dollars in millions, except per share amounts)		
Assets		
Current assets		
Cash and cash equivalents	\$ 193	\$ 191
Trade receivables, net of allowance for doubtful accounts	1,393	1,026
Miscellaneous receivables	314	360
Inventories	1,532	1,509
Other current assets	66	57
Total current assets	3,498	3,143
Properties		
Properties and equipment at cost	12,513	12,370
Less: Accumulated depreciation	6,943	6,763
Net properties	5,570	5,607
Goodwill	4,514	4,527
Intangible assets, net of accumulated amortization	2,278	2,373
Other noncurrent assets	400	349
Total assets	\$ 16,260	\$ 15,999
Liabilities and Stockholders' Equity		
Current liabilities		
Payables and other current liabilities	\$ 1,406	\$ 1,589
Borrowings due within one year	662	393
Total current liabilities	2,068	1,982
Long-term borrowings	6,033	6,147
Deferred income tax liabilities	933	893
Post-employment obligations	924	963
Other long-term liabilities	528	534
Total liabilities	10,486	10,519
Stockholders' equity		
Common stock (\$0.01 par value – 350,000,000 shares authorized; shares issued – 219,093,133 ₂ and 218,369,992 for 2018 and 2017, respectively)	2	2
Additional paid-in capital	2,021	1,983
Retained earnings	7,292	6,802
Accumulated other comprehensive income (loss)	(193)	(209)
	9,122	8,578
Less: Treasury stock at cost (77,863,885 shares for 2018 and 75,454,111 shares for 2017)	3,425	3,175
Total Eastman stockholders' equity	5,697	5,403
Noncontrolling interest	77	77
Total equity	5,774	5,480
Total liabilities and stockholders' equity	\$ 16,260	\$ 15,999

The accompanying notes are an integral part of these consolidated financial statements.

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	First Six Months	
	2018	2017
Operating activities		
Net earnings	\$636	\$573
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	300	292
Gain from property insurance	(65)	—
Provision for deferred income taxes	5	36
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in trade receivables	(213)	(166)
(Increase) decrease in inventories	(158)	(108)
Increase (decrease) in trade payables	(10)	(28)
Pension and other postretirement contributions (in excess of) less than expenses	(78)	(56)
Variable compensation (in excess of) less than expenses	(24)	(34)
Other items, net	15	(26)
Net cash provided by operating activities	408	483
Investing activities		
Additions to properties and equipment	(244)	(279)
Proceeds from property insurance	65	—
Proceeds from sale of assets	—	1
Acquisitions, net of cash acquired	—	(4)
Other items, net	—	(1)
Net cash used in investing activities	(179)	(283)
Financing activities		
Net increase (decrease) in commercial paper and other borrowings	268	(95)
Proceeds from borrowings	350	500
Repayment of borrowings	(428)	(250)
Dividends paid to stockholders	(160)	(149)
Treasury stock purchases	(250)	(175)
Dividends paid to noncontrolling interest		