Dow, Inc.

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Mark van der Pluym: Good morning, everyone, and welcome to day two of the Morgan Stanley 14th Annual Laguna Conference. It's my pleasure today to have with me Jeff Tate, CFO of Dow.

Before we dive into things, just a couple things I need to remind everyone of. For important disclosures, please see the Morgan Stanley Research Disclosure website at www.MorganStanley.com/ResearchDisclosures, and if you have any questions, please reach out to your Morgan Stanley sales representative.

Jeff has a few prepared remarks to kick things off and along with those remarks there are slides that are posted at the Dow website that anybody online is welcome to follow along with.

Jeff.

Jeff Tate: Great, thank you Mark, and good morning everyone. And thank you for having me today. You know, before we get into your questions, I'd like to begin with just a few remarks to paint a picture of how the third quarter has evolved.

I'll share Dow's views on the external factors and market conditions that have the greatest impact on our business as well as an overview of our self-help actions, continued financial discipline and our near-term priorities.

Now I'll start on slide two with the current environment. The macro backdrop remains dynamic and largely unchanged from what we outlined in July at our earnings. Specific to Dow, our strategically advantaged global footprint and local supply chains in every region continue to be differentiators for us.

The oil-to-gas spread remains elevated as geopolitical tensions in the Middle East continue, supported by recent material escalation of crude pricing while gas remains largely unaffected. This reinforces the competitive advantage of Dow's purpose-built asset base and feedstock position that we've developed over decades.

And while the tariff landscape has become more complex, Dow's direct exposure remains minimal. That said, continued volatility and uncertainty in the early part of the third quarter have created some headwinds that we're working to offset. Several market developments are working in our favor, which we expect to at least partially offset some of the impacts, but we've got more work to do.

More specifically, July polyethylene prices in the Americas settled down 10 cents per pound. This reflected declining feedstock prices and margins in the early part of the month when initial expectations for a durable solution to the Middle East conflict began to surface. In August, however, widespread reporting indicated those expectations were not realistic in the immediate term.

In the month, we saw some improvement in the global operating environment along with higher oil prices. This ultimately led to polyethylene prices selling flat month-over-month. So far in September, we are seeing a strengthening order book, including in Asia, along with a recent sharp escalation in global feedstock costs. This supports our announced global price increases globally, including 10 to 12 cents per pound for polyethylene in the Americas.

With the rapidly rising cost environment, we are implementing these price increases with urgency.

So looking at some of the key markets that Dow serves across our portfolio, consumers remain selective, with spending trends favoring essential items. Additionally, the building and construction and automotive markets continue to face challenges amid a cautious monetary policy environment. Shipping through the Strait of Hormuz and other regional waterways also remains constrained, tightening global supply further. And low water levels in Europe, including the Rhine, are constraining competitor supply across several products, which is leading to higher market prices across our industrial, intermediates, and infrastructure segments.

So to summarize, the geopolitical and macro backdrops remain volatile and demand signals are mixed. While polyethylene price declines early in the quarter represent a headwind, Dow continues to lead with deliberate actions, and we remain focused on controlling what we can control.

Our self-help actions in the breadth of our portfolio are helping to partially offset this impact, and we now expect to deliver EBITDA of $1.5 billion to $1.6 billion for the third quarter. This represents our best estimate based on what we see today, recognizing that a continued volatile environment this month could ultimately influence the outcome.

Next, I'll share some examples on slide three that outline the ways in which we are taking decisive actions to improve our financial strength. First and foremost, we continue to enhance Dow's balance sheet and near-term financial performance. To start, our major planned maintenance for the year is now complete at several of our largest assets, which should provide a tailwind in the fourth quarter.

In addition, we received the remaining tax withholding related to the NOVA litigation settlement earlier this quarter. We're also actively prioritizing deleveraging with excess cash, and we expect to release more than $500 million of net working capital in the second half of this year.

Looking longer term, we have no substantive debt maturities until 2029. And importantly, we continue to deliver our self-help actions, including our recently upsized end-year target for Transform to Outperform. With this, we now expect to deliver $1.3 billion in total benefits from self-help in 2026.

Our intentional actions continue to strengthen Dow's credit profile as improved earnings, balanced capital allocation, and self-help actions drive higher cash generation and lower leverage. This was evidenced by a recent rating agency outlook upgrade.

Next on slide 4, , I'll unpack some additional details on how Transform to Outperform is delivering value as a significant contributor to our self-help improvements. We expect Transform to Outperform will deliver an upsized benefit of approximately $700 million this year, clearly demonstrating the early value we're capturing.

Importantly, we remain confident in the more than $2 billion total opportunity that our transformation will deliver, and we're seeing significant early results from every work stream. A broad range of actions will contribute to the benefits we expect in the second half of this year. And let me highlight just a few examples.

We've already implemented approximately 70%, 7-0, of the total Dow roll reductions, and we expect to implement nearly all of them before the end of this year. This is expected to contribute more than $200 million of EBITDA uplift in the second half. We're also leveraging advanced technology, which has identified more than 50 opportunities to streamline and strengthen our end-to-end processes, leading to improved decision quality, discipline, and profitability.

Additionally, we've completed our site transformation playbook at six of our largest sites, with three additional sites started this quarter. In total, this is expected to deliver approximately $50 million in the second half of this year.

The actions we're taking include improving production yields, driving maintenance productivity and energy inefficiency, and optimizing third-party spending.

Our strategic sourcing and contract renegotiation initiatives are also delivering structural cost savings of more than $70 million in the second half of this year. This includes implementation of targeted RFPs across consumables, labor, corporate services, and raw material purchasing contract renegotiations. And in our logistics and network optimization initiatives, we're reducing costs while also improving network efficiency and strengthening utilization of our logistics fleet, all of which we expect will deliver more than $30 million in benefit by the end of 2026.

On the growth side, we are seeing initial results from accelerated market-focused strategies. Our commercial teams are delivering increased profitability, supported by strong execution and business models that enable us to access markets that Dow has historically deprioritized. We're also evolving to serve fast-growing segments with a one-Dow approach and sharpening our focus to win even greater share with existing customers in markets we know well.

We remain encouraged by these early wins and the value they're generating. These examples give us great confidence in the magnitude of the opportunities and our ability to deliver against them.

So, closing on slide 5, given the external factors I described, we are staying focused on the areas that we can control. Self-help, like our transformation, will continue to underpin how we work. And our sights remain firmly set on the three priorities that we outlined in July. We will continue to hold ourselves accountable to deliver on our commitments and demonstrate tangible examples of our progress, all to ensure we're consistently creating value and that is grounded in that principle.

First, we will drive focused growth and innovation in the high-value markets where Dow can win and create differentiated values with our customers. We will prioritize targeted innovation, technology, and commercial excellence to strengthen our competitive position, deepen customer relationships, and accelerate growth where we have the greatest opportunity to lead.

Second, we're enhancing our portfolio competitiveness. This means operating with a best-owner mindset. We're investing in our businesses and our technologies where we can grow and create value. And where we can't, we'll continue to take actions like the non-core divestitures and asset shutdowns we've recently completed.

And third, we will continue to hold ourselves accountable for taking a balanced approach to capital allocation. This includes using consistent principles to strengthen our balance sheet, driving a focus on cash flow, and ensuring maximum financial flexibility.

So the key takeaway is this: Team Dow is executing with discipline. We're doing so in an uncertain environment and taking bold actions within our control to deliver lasting competitiveness. We have a strong portfolio, a world-scale global asset base, deep customer relationships, and exceptional talent. And we have a clear path to creating long-term value with greater earnings durability and stronger cash flow throughout the cycle.

Thank you for listening. And Mark, I'll be happy to take your questions.

Mark van der Pluym: Great. Thank you, Jeff. A lot to unpack there. I guess, you know, let's dig first a little bit more on the Transform to Outperform program; right? I mean, of the $2 billion target that's out there, how much of that do you think is truly structural and permanent; right? I mean, meaning it can survive a return to even tougher macro environment versus just variable cost savings that could reverse, should volumes or activities decline further.

Jeff Tate: Well, I'll tell you this, Mark. This is one of the unique things about our Transform to Outperform initiative, which we announced back in January. This is not a typical restructuring program. And so our expectations and the way that we are executing is that all of this will be structural. All of this will stick. All of this will be sustainable. Two-thirds of that value generation will come from productivity, and the other third will come from growth.

And we're really focused on simplifying our operating model. We're focused on eliminating work, automating work as we move forward, and ensuring that as we make the reductions in the workforce that I mentioned, that it's not a smaller number of colleagues that are doing the same amount of work and doing it the same way, but really effectively looking at how can we modify and enhance the way we do that work in a more efficient manner.

Mark van der Pluym: So what tools are you utilizing then to simplify that workflow? Is that more automation, more adoption of AI technology, or is it just simply streamlining operations as you see it?

Jeff Tate: It's interesting. Some of this is fundamental looking at end-to-end processes. Across the company, we have identified those end-to-end processes that touch all elements of the company from an operations perspective, Mark.

And in looking at the fundamentals of that, there are typically going to be some handoffs and some trade-offs that you make from one end to the next. And so we're going through a very detailed evaluation of each one of those processes and looking at ways to more effectively do that.

Some will come from automation. Some will come from AI. Some will come from elimination and standardization of those efforts around the globe.

Mark van der Pluym: Gotcha. That makes sense. Let's pivot over. You touched on the portfolio competitiveness; right? And as I think about the optimization of the portfolio, in your performance materials and coatings business, you've engaged in a multi-year strategy to shift the mix towards higher value downstream products while right-sizing higher cost upstream capacity. Where are you today in terms of the percentage of PMNC silicone revenues in higher value downstream applications versus more commodity upstream? And what's the target mix, you think, by '28?

Jeff Tate: Sure. So this is an exciting one. And obviously, I spend a lot of time in my prepared remarks talking about packaging and specialty plastics because that's typically one of the areas people like to engage in conversation when it comes to Dow. But we have so many other parts of our enhanced diversified portfolio such as PMNC and silicones.

One of the things that is really interesting about our silicones business, it is the world's largest, most integrated silicones business globally, first and foremost. And what we have done is we've continued to shift much further downstream to higher value, higher growth markets associated with silicones.

So you think about automotive. You think about healthcare. You think about different parts of data centers and electronics. So for example, we just announced recently a $100 million investment around our silicones business that will be focused on the US, China, and Japan, with a lot of that going into end-market applications such as the sensors, the radar sensors that go into autonomous vehicles. You think about the advanced chips from a semiconductor perspective, and ensuring that our silicones products are part of that.

When you think about how do you be successful in the silicones market, there are a couple of things that customers expect. They expect differentiated technology. They expect supply reliability. And they expect technical support. And our silicones business is able to provide each one of those on a consistent basis.

Mark van der Pluym: Maybe let's double-click on that a little bit more; right? You've talked about expecting 20% or higher returns on downstream silicone volumes driven by double-digit growth in EVs, consumer electronics, data centers, as you just mentioned. But what's the capital intensity of the downstream silicone expansion investment in the US and Asia? And then what do you foresee is the expected payback period relative to that 20% return target?

Jeff Tate: Well, that's one of the interesting things, because -- and some of your more commoditized assets, you would expect a longer payback period and perhaps a smaller return. In silicones, first and foremost, our GDP growth is 1.5 times to 2 times on average; right? So significant growth, again, at much higher margins. The payback that we've seen on our project from a silicones perspective are typically in the two-to three-year time frame.

And if I look at the $100 million investment that we just recently made that I mentioned, a significant portion of that will be here in the US at our facility. But we also have facilities in China and Japan as well where we're really diversifying that investment across the globe.

Mark van der Pluym: Gotcha. Maybe let's just wrap it up on PM&C. Operating EBIT was around $133 million in Q2, down year-over-year despite the 11% net sales growth, largely because of plane maintenance at the Barry shutdown.

When do you expect PM&C EBIT margins to recover to and/or above prior year levels? And what do you think are some of the most important factors to kind of drive us there in that recovery?

Jeff Tate: Yeah, one is the silicones growth that we just discussed, Mark, that will be a significant catalyst for that. The other is our coatings business. Our coatings business is one that continues to take market share. We are growing with the customers that are winning in the market. So you think about architectural coatings and the success that we're having there. Those will be two of the significant drivers.

And silicones on the Barry UK shutdown, that will have an immediate EBITDA uplift. We completed that shutdown in the second quarter of this year, and that will deliver by the second half of this year, about $60 million of EBITDA uplift improvement. And we will see, you know, significantly higher amount going into 2027. So we've got a number of self-help actions that are driving that, but also the way we're going to market with silicones, as well as with coatings, that will drive continuous year-over-year growth in PM&C.

Mark van der Pluym: Gotcha. On the comment you made there with coatings taking share, I guess what's driving that share gain? What differentiates your products versus the peer class?

Jeff Tate: A lot of it is the reliability that our products can offer. We, from a supply chain perspective, a manufacturing standpoint, our customers want to know that when they need our products that are, again, differentiated, that they can get them anywhere that they need them. And that has been one of the operational excellence competitive advantages that Dow has continued to have. So one is the differentiated technology, the other is the supply reliability that we can offer.

Mark van der Pluym: Interesting. Let's shift gears maybe over to industrial intermediates and infrastructure. You know, you touched on some of the softness we're seeing in some of these markets, housing, you know, obviously being one of them, but, you know, you're expecting a normal seasonal decline in building and construction in Q3 with some margin pressures in Europe. We've all been waiting for this recovery now in the housing market for some time, and yet housing starts and existing home sales are still well below historic averages. What are you seeing thus far this quarter in building and construction, and how are you managing the business through the current higher-for-longer rate environment?

Jeff Tate: Sure. I mean, when you look at, you know, building and construction for us, and specifically in the II&I segment, there are a couple of dynamics that I think are worth mentioning. One, yes, building and construction is a significant portion of the portfolio, but it's a mixed bag from a demand perspective, because data centers also do provide some level of a tailwind within that segment for us.

You know, the other thing that I would also mention, Mark, is we have our Dow Industrial Solutions business as well that is an II&I segment. That's the (inaudible) investments that we've made over the past couple of years. So, again, you think about home care, personal care, pharma, electronics as well. Those are areas that are growing higher margin faster than GDP, which will continue to provide that tailwind for us as we think about year-over-year growth.

Mark van der Pluym: Interesting. All right. Maybe just keeping an eye on II&I, you know, you'd flagged that, you know, normalization of PR MDI and PO capacity, which had been disrupted in Q2, is expected to be a headwind in Q3. Market commentary had indicated that the upstream carbon monoxide issue had flared up in early July before fading again. Can you help us size that, perhaps, and how quickly have peers restarted, if they have even? And what's the EBITDA headwind from MDI and PO margin compression that's embedded in the Q3 guide?

Jeff Tate: Well, you know, the interesting thing is that because of the industrial gas supply issue that I think you're referring to, you know, the industry supply is still tight. So we're actually seeing some pricing momentum in this period of tighter supply, which we're being able to really execute on as we ramp up our operating rates on the US Gulf Coast related to MDI. So that's one of the areas where, you know, if you looked at the beginning of the quarter versus where we are now, it's giving us a slight tailwind to close out third quarter, which is positive for us.

Mark van der Pluym: Perfect. Maybe let's take a step back and zoom out a little bit more on, you know, just the macro picture; right? Before the conflict had started the last few years, it had really kind of been like the perfect storm in Europe. Higher energy costs, post-Russia/Ukraine, higher interest rates, a weakening consumer, and more imports from China. Can the supply constraints related to the conflict bridge us out of that environment, do you think?

And how are you thinking about that region now strategically?

Jeff Tate: Well, for us, you know, Europe still provides a profitable layer; right? We have announced, you know, a number of asset shutdowns, but those were higher-cost, higher-energy-intensive assets that will improve us on the cost curve as we move forward. So those are, you know, best owner mindset, value generating decisions that we have made. One of those was the Barry siloxanes unit that we just discussed.

The other things that we're looking at here, with that profitable layer, there are opportunities for improved margins in specific areas. You know, one of the things that we did this quarter, Mark, was we started our cracker in Terneuzen. This is our most flexible, most cost effective cracker. We shut it down temporarily last year because there was some significant maintenance that needed to be done. We've completed that maintenance and restarted that cracker as of now. So we're in a really good position on the cost curve.

We've got a really good product offering in the European area. And what you're seeing right now is because feedstock costs are much higher, right, they're going to provide a constructive opportunity for price increases, but it's going to take time for those price increases to work their way through the value chain. So temporarily, what we're seeing is that margin pressure in both Europe and Asia. But as it works its way through, you should start to see with the supply tightness, as well as those price improvements, some level of a tailwind in the region.

Mark van der Pluym: Gotcha. I'll take a pause here and see if there's any questions from the audience. Going once, going, oh, we got one right there at the back.

Unidentified Audience Member: I know it was previously mentioned, but I was curious what you think about just the supply situation in China, not only just kind of short term, but kind of a little longer term, and how you see that impacting your business.

Jeff Tate: Yeah. Well, thank you for the question. A couple of comments I would make there around China is, you know, China has fared better through this whole Middle East conflict than most would have anticipated, probably at the beginning of the conflict earlier this year. And we've really done an evaluation of why that is. A couple of factors that I would note. One is the strategic oil reserves that China had in the early parts of the conflict were much higher than most would have expected.

The other thing, when you talk about the chemical industry, is China has a very diversified cracker technology manufacturing expertise. So they have naphtha, they have ethane, they have CTO, or coal-to-olefins as well. And that has provided another buffer in terms of working its way through.

Now, the reality is you still have, you know, some level of feedstock cost increases, but they've been able to mitigate some of that. As we move forward, even near-term, we've seen spot prices increasing in China, and specifically overall in Asia. We've also seen our order book significantly increase from a volume perspective as well.

And if you go look and take one of your industry experts like a CMA, they have said even longer-term to your question, that out to 2030, China will still be at least a net importer of product.

Mark van der Pluym: Any follow-up questions? Otherwise, maybe let's just zoom out a little bit. But on the 2Q call, you described roughly 50% of the global ethylene and polyethylene supply is either offline, constrained, or directly impacted with the Strait of Hormuz, you know, significantly impaired. As we sit here now in September, how do you think about the current scale of disruption? And what are the indicators Dow's most closely monitoring?

Jeff Tate: Yeah, so, you know, we're continuing to obviously look at, you know, what's happening with the Strait, but also now not only with the Strait, but you also look at the Red Sea. You know, I mentioned even other supply constraints around, you know, the low water levels in Europe. So, there are a number of supply chain challenges I would describe that we are continuing to evaluate.

You know, there's still a significant amount of oil that's offline because of the Middle East conflict. And what does that do? That does a couple of things. That obviously creates a higher oil-driven cost curve that also looks at, you know, right now constrained supply. But those are mechanisms right now, Mark, that actually makes it more constructive for the price increases that I mentioned earlier. So, that's one of the reasons why if you can supply reliably, you have the product that you can export out, which we can, you know, puts you in a much better position to be able to support the ongoing resilient demand that we still see in packaging, that we still see in electronics, that we still see in home care, personal care, et cetera.

Mark van der Pluym: Great. Maybe let's shift from the supply side of the discussion more towards the demand side. You know, in your prepared remarks, you mentioned that the macro feels largely unchanged. And yet, you did start to see, you know, a strengthening order book in September. What are some of the key verticals you guys are watching? What do you think needs to occur to unlock more of this demand and kind of break us out of this stasis?

Jeff Tate: Yeah. So, maybe I'll go through the four verticals that we tend to create a thematic around, starting with packaging. Packaging, especially plastics, has continued to be very resilient for us. You think about food and flexible packaging. Those are areas, regardless of the, you know, level of inflation that we're seeing or the affordability, there's been a pretty stable demand environment that we've seen throughout. And we expect that to continue.

If we then look at infrastructure, and we talked about building and construction, we would expect that to still be a heavy lift, you know, when you've got 30-year fixed mortgage rates at 7%. But again, there are pockets, data centers and others in the infrastructure space that do provide some level of improvement and tailwinds.

On the consumer side, that's really one of the green shoots that I would say has continued to be a positive. So, again, that personal care, home care, pharma are areas that have been, you know, anywhere from solid to strong, consistently.

And then automotive. I mean, the latest forecast that we've seen is that year-over-year automotive bills will be down about 2.6%. There's an expectation that there will be about 91 million vehicles built this year. Now, what you're seeing is that shift from combustible engine to more hybrid and obviously, you know, looking at those that are more EV. And that's one of the things that's a positive for Dow. Because going back to our silicones discussion, we typically have three times as much of our silicones product in an EV versus in a combustible engine vehicle.

Mark van der Pluym: Interesting. So, if I were to take a step back, right, I mean, it's difficult being a cyclical company in a cyclical industry. And yet I look at so many of your verticals and I could argue there's underlying secular drivers behind some of this, right, as you touched on with the infrastructure, the data center side, you know, automotive as well, mix shifts occurring.

If you were to close your eyes today and imagine how you would like Dow to look in 3 to 4 years, be it positioned across those various four end markets or, you know, your current segmentation, how do you see flexing your priorities to kind of achieve what you would envision as a target model for this company going forward? Really kind of leveraging the R&D work and the material sciences you guys put into it, you know, help the audience kind of understand what differentiates Dow.

Jeff Tate: Yeah, so I don't even need to close my eyes for that one, Mark, because I think it's one that we think about often, right, as we're thinking longer-term. First of all, Dow is a almost 130-year-old company. So, I always like to start with what are the things that we have always had as a competitive advantage?

One of those is our strong portfolio of differentiated products and technologies. So, if I close my eyes and say 2030, that will sustain itself. Another is world-class, low-cost assets in the right locations around the world and maintaining that operational excellence. The third would be deepening those customer relationships that we already have and winning with the customers that are going to win in the markets that we have decided to participate in that have the higher growth and higher value. And then, fourthly, is to ensure that we've got that talent that can sustain itself that really focuses on long-term value.

And by doing all those things, I would envision -- no surprise, being the CFO -- that we would have higher earnings, stronger cash conversion, higher free cash flow that leads from a capital allocation perspective to greater return for all of our stakeholders, if I could simplify it.

Mark van der Pluym: That's great. Any other closing questions from the audience? Otherwise, I think that's a perfect place to leave it.

Jeff Tate: Great.

Mark van der Pluym: Thank you, Jeff. Thank you for the Dow team. And that's a wrap.

Jeff Tate: Great. Thank you. Thank you, everybody.