**Dow**

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Jonas Oxgaard: Good morning everyone, and thank you for coming. I'm Jonas Oxgaard, a US Chemicals analyst. I'm very happy to host The New Dow. Then we'll ask about the formal name, but we'll go with that. So, Dow is an odd one in that it's a 130-year-old company but also three months old at this point, two months old at this point, having reemerged from the Dow-DuPont merger. That all said, we have today Jim Fitterling, the CEO of -- of New Dow with us.

Just housekeeping, remember, it's the second day here so you've probably figured it out by now but questions, please write them on the little notes. Hold them up and one of our associates will come and collect them and feed them to me. And with that, Jim.

Jim Fitterling: Thanks, Jonas. Thanks for inviting us here today and good morning, everyone. Before we get started, just a reminder that the usual disclosure rules regarding forward-looking statements apply both to my remarks now and to the Q&A that Jonas and I will start in a moment. So let me just take a few minutes up front to hit on the key investment highlights that Dow offers, and why we are the materials science company to own across the economic cycle.

On April 1st, Dow reemerged as an independent company following the separation from Dow-DuPont, and our investment thesis, I believe, is a compelling one. We've streamlined and focused this portfolio more aligned to three core markets: packaging, infrastructure, and consumer care. And these are very attractive, consumer-driven sectors where we have the scale and the leading market and technology positions. In fact, about 70% of everything we sell goes into some consumer-driven demand.

And for these reasons, we continue to capture above GDP demand growth. We're exercising a lot more financial and operating discipline in the new Dow. We've got the best balance sheet that we've had in more than a decade and we've got clear targets in place to maintain strong investment-grade credit rating across the economic cycle. We've also got a leaner cost structure, and that was one of the biggest changes, and focusing the portfolio on getting the cost structure of the company down, supported by our streamlined portfolio and cost synergies and the actions that underpin our rigorous benchmarking. We did a lot of work to get best-in-class benchmarking in our sector and make sure that

we could achieve that.

So on the cost savings, we've delivered nearly a billion dollars of cost savings since the merger and remain on track to deliver an incremental $600 million of savings this year.

And we've got a series of organic growth projects that are in place today and contributing to the bottom line. A little -- a suite of incremental brown field projects on the deck that will deliver our next phase of growth -- well, they're lower-capital-intensity projects than the ones we just completed in the US Gulf Coast and in Saudi Arabia. So when you look at it together between costs and our incremental growth levers, we've got the potential to drive $2 billion to $3 billion upside potential and as we continue to improve our cash flow conversion, it represents $3 billion to $4 billion of free cash flow improvement potential.

All of our actions are underpinned by a capital and resource allocation mindset that's more disciplined and highlights a balance between shareholder returns and organic investments that are incremental, lower risk, faster payback, and deliver higher return on invested capital.

On the capital profile front, we've got some clear targets through the economic cycle, and have targeted a total of $4 billion of deleveraging, half of which is already done and was done at the spin. So we're continuing to do prudent liability management and as you may have seen earlier this month, we came to the capital markets and we accessed about $2 billion of our debt at a weighted average coupon of less than 4%. That was to take advantage of what we thought was an attractive market environment and to really take some 2021 debt maturities out that were at a good return.

So our growth investments are on brown field, incremental expansions that return at least 3% above our average cost of capital, and if projects that don't meet that criteria, then we're not going to authorize them. We're keeping our CapEx less than or equal to D&A for the next three years. Our target this year is $2.5 billion, which is well below our D&A level. And our R&D spend is targeted to be less than or equal to 2% of sales.

Our capital allocation priorities put a strong emphasis on shareholder returns, across the economic cycle. We intend to return approximately 65% of our operating net income to shareholders through a strong dividend. We've got a $2.1 billion dividend per year. And an opportunistic share repurchase program.

So to that end, on top of the $2.1 billion dividend that I referenced, we have about a $3 billion open share repurchase program in place. That $2.1 billion at today's stock price, which I think we would all argue is a bit depressed, is a very, very attractive dividend yield. And I think it gives a great opportunity as we look at a future that improves as we get past trade discussions.

Before turning to Q&A let me quickly touch on what we're seeing in the market and across the value chains today. The global economy continues to expand but the pace is a little bit slower than 2018 and it's not synchronous across our major geographies. We're seeing good strength and consumer confidence in spending here in the US. It's supported by wage growth and a US unemployment rate that's at a 50-year low.

However, spending on some large-ticket items like home purchases and builds, certain durable goods and autos, remains a little bit tepid. And as we look at the key value chains, where we're experiencing the greatest demands is in the parts of our portfolio that are closest to the customer. So, differentiated applications in silicones, polyurethane systems and packaging are strongest volume growth.

In our intermediates we continue to have some year-over-year margin compression including siloxanes and isocyanates. And some of the price pressures we saw in the fourth quarter have persisted a bit longer than we expected. As we exited the first quarter, we saw some signs of stabilization in the intermediate product sequentially, but we have to be cautious as we go forward that we continue to see further improvements. And some of that has really been influenced by geopolitical and trade wars.

More importantly, I don't see the long-term, near-term challenges changing our long-term growth potential or outlook. And in this environment what we're focused on today is making sure that our capital allocation priorities are tight. We have a disciplined focus on driving higher returns on invested capital and that incremental investment mindset remains the right approach.

So let me just wrap up the near-term priorities, which have not changed from what we've shared over the past several months. We're making great progress against each one of these goals, but admittedly there is still work to do. We remain focused on driving a leaner cost structure and getting that additional $600 million of cost synergies out to complete that synergy program. We remain disciplined with our incremental faster payback, lower CapEx and higher return on capital investments and we keep the shareholder squarely in focus by maintaining financial discipline and delivering 65% of our operating net income back to owners across the economic cycle.

Taking all of that together, we think it represents a compelling opportunity for our shareholders, and in this environment we believe Dow as a standalone company is operating more productively, investing more prudently, growing more profitably and delivering higher returns to shareholders.

So thank you for being here today. I wanted to keep it short so that Jonas and I would have plenty of time, and you would have plenty of time, for Q&A. Thanks.

Jonas Oxgaard: Thank you. As a reminder, if you have questions please write them down and hold them up in the air, and some of our associates will come and collect them for you.

So if you're started at the very high -- high level, and this is a generalists conference so not everyone here is dedicated to chemicals -- if you have the possibility to invest in any part of the economy, why should we go with -- why should investors go with Dow instead of a less-cyclical, consumer-focused company for example?

Jim Fitterling: Well, I think today based on where we are in the cycle and you have to bear in mind that a lot of capacity has come into the industry over the last couple of years. We're nearing the end of that capacity coming on, and we've got the outlook for tighter operating rates as we go into 2020 and 2021, which will give us pricing power. It's not an issue of demand. The demand is there. So in first quarter, we saw good volume growth. It was really an issue of pricing, a little bit of currency. We've seen some Chinese currency

moves.

And then the second reason is when you look at the current valuation of the stock versus what it can do through the cycle, and you look at the dividend yield, it's one of the highest yield stocks that's out there today. Sometimes people will ask about the dividend, $2.1 billion, how safe is that.

We did extensive modeling about that when we did the capital structure of the company. At that time the capital structure of the company, we're about a $50 billion revenue, $10 billion EBITDA company. And the downside was a 30% to 35% compression in EBITDA margins. Even at those levels we're able to support the $2.1 billion of CapEx.

Because we have levers under our control, such as the costs, controlling cost synergies that I mentioned, keeping the CapEx tight, and I talked about $2 billion to $3 billion of upside on EBITDA and $3 billion to $4 billion of upside on cash, remember we're just coming out of a merged state where two big entities, Dow and DuPont, created three divisions. And we set up three divisions. We spent -- Dow -- on the Dow side, spent $1.4 billion last year on separation costs. That will come down by about $200 million this year and then next year that goes away. So, that's the additional $1 billion of cash flow upside that's on top of the EBITDA itself.

Jonas Oxgaard: Okay. I think the topic, top-of-mind of most investors today, is the economy. The trade war, China's growth. So can you talk about how -- how is that impacting Dow directly, but perhaps more importantly, indirectly?

Jim Fitterling: Yeah. I think a lot of people will first talk about the tariffs and what's the impact, and it does have some impact. Just to give you an idea on our scale and size, just the tariffs that are in place today alone is about $40 million of EBITDA impact. That isn't a large impact for a company of our size. And we can adjust some of that by adjusting supply chain to mitigate some of that.

The bigger effect, I think, is the knock-on effect and the confidence effect. And so typically in our markets what we see is when confidence becomes a little bit shaky, especially at the consumer level, what they tighten up on is big-ticket items. And I think that's what you've seen in China, that's what you've seen here in the US. But other consumer spending is good. And that's what we see in our disposable income, household personal care products, coatings business, other things. Those products -- those demands remain high and I think that'll come back as we navigate through the trade war and the resolution of that.

I do think that it's taking us obviously a little bit longer than all of us expected. We thought by this time we'd be seeing the end of the tunnel on the trade war. I do think it was a big kind of an overreach and a pushback on the Chinese side with that last draft that came back, and one of the real sticking points here is intellectual property protection and making sure that that gets codified into law. Our feeling -- I think the feeling of the administration, I can't speak for them, but I think the general feeling is that we haven't seen any discipline or any enforcement mechanism in today's world that works. And we don't feel comfortable that we'll get that without it being codified into law. So I think that's really what's at stake here.

Jonas Oxgaard: That makes sense. Now, if we don't get a resolution, and end up this -- in the new world where we have 25% tariffs in both directions, how does that impact mainly polyethylene, both at Dow and by extension?

Jim Fitterling: The polyethylene is a big global market, and so what we'll do is continue to move around the supply sourcing to make sure that we're not as exposed to China. You know, look. Even under the tariff scenario today in first quarter, we were up double digits in China in all three segments of our business. So we're still able to move product there. There's still demand. We're not -- we're not moving in the same kind of products that can be manufactured in China. We're typically moving in higher grades of products for more sophisticated packaging. And I think we'll continue to have room to do that.

China is sufficient for about 65% to 70% of what they need today, but for some of the grades of products that we move in they don't have much capacity. So I think even with tariffs, you'll still see some trade flow from the US to China. It's just going to, I think, keep the confidence levels a little bit lower.

On the converse side, as we see the end of trade war coming -- you've seen it in the financial markets, but I think you will also see it in the downstream demand. You'll see a little bit of pent up demand come back in. People just as financial markets and investors are a little bit hesitant to take those risks, and they go into a risk-off mindset, entrepreneurs -- and a lot of our customers are small and medium-size companies -- get that risk-off mindset as well. And when they see a resolution in sight, they'll switch quickly into risk-on.

Jonas Oxgaard: Okay. About half the questions I've gotten actually is on the Deer Park lockout.

Jim Fitterling: Okay.

Jonas Oxgaard: Question is, how is it good for shareholders to invest in a company that locks out experienced workers and variations of that question.

Jim Fitterling: Okay.

Jonas Oxgaard: If you'd like to address the --

Jim Fitterling: Yeah. I think the Deer Park lockout is a discussion between us and the union at the site. It's really over one principle issue, which is the amount of overtime. And you know, the amount of overtime people work in an industry like ours also has an impact on things like safety. And what we want to try to do is have a more even distribution of that overtime across the whole workforce, not concentrated in a few employees and a few more senior employees. That's been our proposal. The employees have been offered a contract which is a significant wage increase and a five-year contract. It hasn't been taken to a vote. They'll have the opportunity to come back onto the site under those terms when we reach an impasse.

We've been encouraging the union to take it to a vote. But so far we haven't been at that level yet. So that's -- that's all I have to say on that issue.

Unidentified Audience Member: (inaudible)

Jim Fitterling: I don't think this is the forum to have that discussion.

Unidentified Audience Member: (inaudible)

Jim Fitterling: I'm happy to talk to you outside after the conference.

Unidentified Audience Member: (inaudible)

Jonas Oxgaard: I -- I don't think this is the forum for that discussion, I'm afraid.

Unidentified Audience Member: (inaudible)

Jonas Oxgaard: Okay. If this doesn't get resolved, what happens then?

Jim Fitterling: The plant's being operated today with very professional operations. In fact, it's running as good as it's ever run, so we've got a Plan B.

Jonas Oxgaard: Okay. Going back to -- to the -- to the global picture if you will, one of the other concerns investors have is that China is now building new capacity again. China does seem to have taken a breather, now back on building naphtha crackers.

Jim Fitterling: Right.

Jonas Oxgaard: How do you see that -- this business evolving over the next 5, 5-10 years?

Jim Fitterling: Yeah. I think -- I think a little bit remains to be seen. I think if you would have come last year in the Chinese plans, they would have probably talked about 10 or 11 new world scale facilities in China. In a different economic environment, not in the 2019 environment that we're in right now, there was a balance there between naphtha cracking, or in some cases crude-to-chemicals, and ethane. But bear in mind that the only place to get ethane for a Chinese cracker is out of the US Gulf Coast. And so at -- at the supply-demand balances for ethane down there, there's really not going to be enough to support that kind of growth. There might be enough for the Chinese to baseload one cracker off of the exports.

I think there's a little bit of a sentiment change on the number and the pace of that -- of those expansions. And that's one of our biggest disagreements, I think, with IHS on what the go-forward operating rates look like on ethylene.

The other thing you have to bear in mind in the industry is naphtha cracking, and in most cases crude-to-chemicals, are going to be the highest increment CapEx. They're going to be like the fourth quartile on the cost curve. And China's pricing is the lowest in the world. And so I don't think the returns will be there, and I also think that the Chinese government is going to be under some strain in terms of building that capacity and having the cash to do it if the economy continues to slow down.

So I think this is a question of how much in timing. A good reference would be back to coal-to-olefins and MTO. If you look back to that time frame, there was a discussion about a massive buildup of coal-to-olefins and MTO. And at the time everybody

predicted that we would not have the supercycle like we just experienced, and all this capacity would come on. In reality not much of that capacity did. Today it represents less than 4% of the total global capacity for polyethylene. It's the highest cost and it typically is the flywheel that turns down first. You'll see MTO run when methanol prices are extremely low, but then as gas goes up and methanol goes up, the MTO gets out of the money. And that turns down first.

So I feel like there will be some new capacity built in China. It'll probably be dependent on partners that bring projects in for things like crude-to-chemicals or refinery integration, less so on ethane. I don't think it's going to be competitive for any export. I don't think it's a high-return investment. So I feel good about where we are positioned with our gas investments. We're highly leveraged to natural gas liquids in the Americas. We can crack 80% ethane. We have the highest flex on propane in the world. We can crack butane. We can switch to -- US Gulf Coast we can switch to more than 50% naphtha. So we have the flexibility to move with the market.

In Europe we can crack 60% propane which gives us a great advantage in Europe, and Europe for us is mostly a domestic market play. Most of our assets in Europe support the European market. And then we've got a good position with a fixed ethane cost in the Middle East, in Sadara, to go into China. So I think we're -- our portfolio is well-balanced and we also have a good runway. I think 20 -- especially if we can get a trade deal done in 2019, 2020 and 2021 will look very positive.

Jonas Oxgaard: Okay. And which brings a sort of follow-up question to that. How much of the Chinese capacity announcements do you think is a reaction to the trade war?

Jim Fitterling: I don't think it is. I believe they had that in a master plan before the trade war ever started. I think it was more -- the Chinese announcements were more driven towards self-sufficiency. China for China. And also, trying to bring certain technologies in. China for China has been a long-term strategy, so that's nothing new. And I don't think it has anything to do with trade war.

Jonas Oxgaard: Okay. Which country do you -- would you say is most attractive for a chemical plant investment today?

Jim Fitterling: Well, obviously you've got the capability from a feedstock standpoint to do more here in the US gulf. And now you have to think about what the impact trade war has on your ability to export that material. We have great footprints in Canada. I think there's an opportunity in Canada, even potentially to achieve structural ethane advantage that might be better than the US. We have incremental opportunities down in Argentina. We have a good position in Argentina. And over the last economic cycle, we took advantage of some cash there to help develop the Vaca Muerta shale. And that gas production has been good. So as we look forward, certainly nothing on the same scale as what we would do in the United States, but for the Mercosur market, the ability to maybe upgrade some older capacity there to make it more cost-competitive and give you some incremental growth, and Argentina is a possibility.

So I think we've got several good avenues. Having said that, I don't think we're in a time window right now where we're looking at a major investment like that. Our job in 2019, 2020, 2021 is to get ourselves set up as a new company, to show the value growth of the

company, and not just continuing to grow volume for the sake of volume. And then, pick the places where we can have the most advantage for the shareholders and bring that back to them. And I think we've got great relationships to do that in a few places, and the question will be, what's the right time for us to make that move.

Jonas Oxgaard: Fair enough. You made a commitment there would be CapEx below D&A for the next three years. What about after those three years? I think there's a concern from investors that -- that's (inaudible) stuff.

Jim Fitterling: Right. Well, typically when we've spent CapEx above D&A it's when we're in a major project like the US Gulf Coast project. And in those two years, a couple years there, we spent in the neighborhood of $3.5 billion plus of CapEx. Our D&A level is $2.8 billion, in that ballpark. And our commitment is $2.5 for this year. And we have the ability, you know, if this trade war goes on longer, we have the ability to tighten that down even more. And that's the mindset that everybody has.

As we would look at another project, we would have to look forward and make sure that the market needed the demand, we had good homes for all the product, and that we could achieve a structural advantage. So it just -- it isn't about putting the CapEx out there as much as it is, how does it also change my cost -- position on the cost curve? Does it move me, continue to move me down the cost curve? Can I be the lowest cost producer in that region? And what are the technologies that we're putting in place to set us up for the future? Are we just building new CapEx based on old technology? Are we deploying new technology that's more capital-efficient, more energy-efficient, reduces CO2 emissions? Our biggest CO2 output is in the cracker fleet. So if we can bring new technology to market that allows us to dramatically reduce that CapEx, reduce that energy usage, bring the CO2 emissions down, then that's beneficial from a market standpoint.

Jonas Oxgaard: Okay. So speaking of investments, Sadara, the headache that we're now having. Can you first talk about it -- what's the vision for Sadara in the next, say, five years?

Jim Fitterling: Sadara was developed with Aramco really to bring higher value derivatives to that Saudi resource that was there. The structure of that JV is a 65/35 ownership. Dow is the 35% owner with Saudi Aramco. And Dow because of its global footprint and its presence in the petrochemical industry, is marketing about 90% of the offtake of that asset.

And so what Aramco brought to the table is obviously the feedstock position and a very strong partnership contractually in helping us put that deal together. It was a massive project, $20 billion investment. Project financed in the gulf. There's about $12 billion of debt, project finance on that, and 35% of that is ours. And the parents guaranteed that debt.

I'd say the biggest two issues you've got now is it's very oil-price-sensitive, so as oil price moves up, petrochemical prices move up, that margin drops to the bottom line. And with oil prices where they are today that puts a little pressure on it from a margin standpoint. Its cost position is good, so it actually generates EBITDA margin today. But because it was project financed, that debt was basically spread over a 10-year window and was going to be -- essentially the way it's set up, pay the debt down to zero.

So what we're working with Aramco on is the debt capital structure of that investment to try to get that on a more normal basis. So Dow, for example, would have a debt maturity profile that would be over about a 30-year time window. We need to get Sadara, now that it's fully operating, into that kind of a debt window, get that renegotiated. That reduces the need for the parents to put so much cash in every year.

The cash that's put in by the parents by this year ,we'll put in about $500 million this year. That's all going to repay principal on that debt, and that was very front-end loaded with principal. So our first objective, get the operating EBITDAs up, making sure Sadara keeps getting its own fixed costs down. And they have a program this year to take $100 million more of fixed costs out. Making sure we get this debt restructured, so that brings down the cash needs from the parents. And then once we get that done we'll be on a path towards getting it to the kind of EBITDA returns you need for it to be self-sustaining and move on to whatever the next chapter is.

Jonas Oxgaard: Okay. It just seems that even if we restructure them and we reduce some fixed costs, it still won't really generate much returns. I think last time I spoke to you, you had been to Sadara seven times in the last 12 months. It seems that it's a massive drag on management attention. Is there an opportunity here to just sell it to Aramco or someone else?

Jim Fitterling: You know, we've looked at -- we've talked with Aramco about different structures that make sense. And I think we'll continue to look at that and we'll have those discussions as we go through the debt restructuring. I think one of the things that we have to keep in mind is having 35% ownership and marketing 90% of the product puts a drag on our financial results. And so we need to get that balance more right. So there may be a way to structure it more into a manufacturing JV that makes more sense.

I would say selling it has not been a discussion, mainly because like it's strategic to Aramco for upgrading the value of product there, there are some strategic technologies that we have in there as well. So we need to find a structure that allows us to manage our IP that's inside the JV and also get it to the kind of a return that we promised to the shareholders.

Jonas Oxgaard: Okay. You think there's a path to get to the returns here?

Jim Fitterling: I'll have a better window when we get the debt restructuring done, and at that time I'll be happy to talk about it. But we've got good alignment between Aramco and Dow on getting it done and they're motivated to get it done this year. And so we just continue to methodically work through that process. It is -- and to your point on management time, the core business is number one and right after that, Sadara is the next thing I spend my time on. Rightly so.

Jonas Oxgaard: Switching over to free cash flow, how do you think about free cash flow generation in both the peak and trough of the cycles?

Jim Fitterling: Yeah. So when we looked at kind of the base case and the stress case, and then also what's the upside case of the business, we looked at that pretty strong when we set the dividend. And so when we looked at that dividend and the $3 billion share buyback program, open program that we've got, trying to target 65% of net income, we felt we had

a good path there.

I would say today, we feel good at where the earnings are today, that we're still generating free cash flow. So that's not an issue and we still have some room on a stress case to be able to do that. And then the mindset of everybody is around managing that, and getting the cost structures right. So as we continue to improve the cost structures, we're already -- first quarter, if you looked at our performance -- outperforming peers. And I think as we improve the cost structure we have a chance to do even better than that. And so I think that's the mindset we're going into it with. That's the way we're rewarding everyone.

In this calendar year, in 2019, management is rewarded on return on invested capital and total shareholder return. But the Com committee and the board are very clear that we add cash flow in as a metric next year, and we will do that. And we're just getting -- as we get through all the financials that we've got to get in the new Dow and get our legs underneath us, we'll have a better view on what that cash flow target needs to be for next year.

And to that end, next week, sometime next week, that's the target. You'll see the 8-K recast of New Dow, and basically that will take 2017, 2018 and the first quarter of 2019 performance and put it in the context of New Dow. So that would have all the arms-length relationships between Corteva and DuPont, so those contracts that are out there; the change in transfer pricing to reflect ethylene transferring to all the segments at market pricing. Those are the two biggest changes. And then obviously the metrics, like focus on EBIT. We really shifted the focus away from EBITDA trying to get to the mindset that capital is not free, get the businesses into the mindset of, what is your EBIT performance and what is your cash flow performance. And so we'll still give investors EBITDA so they have that data. There'll be full transparency there. But getting more of the metrics of EBIT, EBITDA and cash flow.

Jonas Oxgaard: Okay. So new (inaudible) statements, I think you made one of my associates cry a bit.

Jim Fitterling: I don't -- it'll be less --

Jonas Oxgaard: I appreciate the transparency.

Jim Fitterling: There's still three segments. There -- we didn't change segments on them so they'll cry a little bit less. But --

Jonas Oxgaard: We appreciate that, too. Thinking of the free cash flow, in a weak economic environment, last time around Dow went a hair away from bankruptcy. Your main competitor went into bankruptcy. It doesn't seem like it's the same scenario now, but can you elaborate a bit on how you would fare in a new recession?

Jim Fitterling: We're in a better -- we're better economic scenario. Our asset base is in a better position. Remember the last time we went through that, we still had all of the chlorine business and chlorine derivatives, epoxy, styrenics, and all the other things that we took out of the portfolio. In the lead-up to this we did not have the Rohm and Haas business. Mostly architectural coatings. We did not have Dow-Corning consolidated at that time. so the portfolio is very different. The balance sheet is much stronger than it was. The stress

case on cash flow is better than it was. At that time, we had really drastically increased our exposure to commodity like ethylene glycol. Today, ethylene glycol sits in our Kuwait joint venture, and it's got a very different cost structure than it had under the old carbide investment. And those assets now are more mature. They've been paid off. Kuwait is doing relatively well and continuing to grow and expand, so we're in a very different environment than we were before.

A lot of the businesses that we transitioned out to better owners, have done well as standalone companies. They've been more focused on their CapEx. They were not going to compete for CapEx inside Dow. They were not going to return above the weighted average, they weren't going to return the weighted average cost of capital or above. And so it's a much different portfolio today.

Jonas Oxgaard: Okay. And what kind of -- what kind of EPS decline could you imagine in a recession environment?

Jim Fitterling: Oh, hard for me to tell you on EPS. We're really not in the --

Jonas Oxgaard: EBIT?

Jim Fitterling: EBIT. When we did the -- when we did the base modeling in October of 2018, where we were going to set up the capital structure for the three companies, we were on a $50 billion revenue, $10 billion EBITDA basis. And the downside stress case was 30% to 35% on EBITDA. So -- and I think that's -- that was through a lot of different simulations, different Monte Carlo simulations around the whole world going into a 2008-2009 type of recession, different parts of the economies going into recession. So I think we feel -- I think we feel like we gave it a really solid stress case.

Jonas Oxgaard: Okay, so 35% which is about, I think, what you did in 2008 as well on the commodity side.

Jim Fitterling: Yeah. That's probably about right. I would have to go check that. I'll look at Neil, but I would have to go check that. But I think that's about right.

Jonas Oxgaard: Okay. That sounds reasonable. Talking about the buybacks for a minute, I was a little bit surprised at the investor reaction to your $500 million buyback announcement. I felt that you'd been very clear, that you didn't have any cash for buybacks this year because of debt buydowns, etc., and you would only spend whatever you could free up from other sources. Can you elaborate a little bit on how you're thinking about the buybacks this year and what you're seeing next year? Will you presume we not have these one-time charges?

Jim Fitterling: Right. So Howard and I have been very consistent about what the uses for cash would be. That 65% of operating net income, we had talked about a $2.1 billion dividend. The dividend, we wanted to put a dividend in place that we could support through the cycle. We did not want to get into a position where we're trying to move the dividend. We wanted to put share buybacks as the thing that has the flex to it. Our base case for this year was $500 million of share buybacks.

Our open program is a $3 billion open program. We did not put a time fence on that.

And that's been typical of the way the Dow board has operated. Create an open program and then when you're getting near maturity of that, decide what the next open program will be. So that gives us flexibility. Based on intrinsic value, based on how earnings are coming in, we can do that.

I still think with the interventions that we'll make as we adjust to how long this trade war goes, I still think $500 million is a good target for the share buybacks for this year. We put a 10b(5) in place for the month after the spin. Because Dow had been part of the merged entity, so we did not have trading in the lead-up to the spin, we cannot technically be in the open market. So we had to put a 10b(5) in place and our mindset on that 10b(5) was an algorithm that expected quite a bit of churn. We knew there would -- we knew there were some shareholders that would churn out because they wanted to maybe own (inaudible), own DuPont. And there were some other value investors because of the dividend, primarily, that would want to come in. But the stock reacted pretty positively during the month of April so the 10b(5) did not do anything in April. And I did -- we did trigger in May, mainly because the whole market came down with trade war fears.

So we did do some buying in May and then when we do the recast next week, that'll end the 10b(5) program once that recast gets filed. And then that'll give us, once we've passed the kind of two-day period, it'll give us the ability to go into the open market.

So I don't know how much the 10b(5) has bought but I still think we'll have room up to the $500 million for this year. And then as we go forward obviously we've got the improved cash flow next year coming with less spending on transaction costs. The businesses are all still working hard to improve margins, get more volume out of the machine and get their fixed costs down, so that's helpful. We've moved those debt maturities out so we don't have big debt repayments to do.

The only other pull on cash for us while we're keeping CapEx tight here, the only other pull on cash for us is deleveraging. And we had said at the spin that we wanted to do about $4 billion of deleveraging. So right at spin we got a $2 billion deleveraging payment from DuPont and we took that immediately and applied that to a term loan, an existing term loan that was out there from when we did the Dow Corning consolidation. So we took that down. And we have target to do another $2 billion of deleveraging. We haven't -- we haven't dictated whether that's going to be this year or next year, or the year after, but we're looking at that.

We opportunistically went into the market in May just to take advantage of good rates and good coupon, and got another $2 billion. So it wasn't deleveraging. It was really to replace those debt maturities in 2021. So that gives us between now and 2021, a very clean debt repayment schedule. Our pensions are in good shape. We contributed in 2018 to take advantage of tax. So we put in more than $1 billion into pension last year. DuPont did similarly. So our pension needs really are about $240 million this year. So that -- that is not a huge requirement for us.

So I think we're in a good position as we move through 2019 and we see how trade gets resolved, we get some margin expansion back in, to be able to do both deleveraging and share buyback for the investors.

Jonas Oxgaard: Okay. And then speaking of de-levering, how aggressive would you be in protecting the

dividend in a worst-case scenario? Would you lever up to protect it?

Jim Fitterling: We -- we set it up -- on the financial model we set it up that we could support the dividend. And that's why we stress tested it so much with the ratings agencies. We've been through that scenario before, and I think what we'll do on leveraging is we'll look at leveraging in terms of what we need to do through the cycle. So sometimes, you know -- in our industry the times when you make the most money and you generate the most cash is often not the time you need to be buying back the most stock. So that's a great opportunity to deleverage at that time, and then releverage when you have the opportunity. And so that's kind of the logic that we're using to look at it. I mean, it can't -- can't tell you what the model looks like today but we shouldn't get enticed by the fact that we're generating a lot of cash and think that just means we've got cash to burn, and we should go spend it on the first thing that shows up. We should -- we should manage ourselves through that cycle. And I think the companies that have done that, have shown that they're a great return to the investors through the cycle.

Jonas Oxgaard: That's fair, yeah. Unfortunately the entire industry seems to work on the opposite dynamic.

Jim Fitterling: Yeah. That takes a lot of discipline, and you have to be willing to take a few head shots along the way.

Jonas Oxgaard: Fair enough. So let's switch to something more upbeat, plastic waste.

Jim Fitterling: Okay. I read your -- I read your report.

Jonas Oxgaard: Which one?

Jim Fitterling: No. I just read the one with the graphs about Samoa and the different countries' usage.

Jonas Oxgaard: Oh, that's somewhat surprising, you were counter-intuitive that banning plastic waste -- or banning plastic doesn't do anything for plastic consumption.

Jim Fitterling: Yeah.

Jonas Oxgaard: But I think that's a good segue actually, to my conclusion from the note, was simply if you're going to defeat the problem we have to recycle. There is really no other way.

Jim Fitterling: It is the only way. So let me -- I'll just -- and some of you heard me say this before. Let's be clear. There is a waste problem. I mean, you can't look at pictures that you see with these large piles of waste, especially in Asia and other places, and say there's not a problem. And it needs to be addressed. And also, our brand owners are coming to us and saying, you've got to help us tackle this problem. Because they're under the gun and they're getting a lot of targets on their backs, and so we're helping them out.

Recycling has to improve. One of the keys to recycling is, there's a general mindset -- like if you would talk to somebody about an aluminum can or a glass bottle, they would think recycling. But in some forms of plastics, they don't think about that. And I'll just take the US example -- if you look at -- every city is a little bit different on what you can recycle on plastics. It becomes a bit of a challenge. So you look at your recycle bin, and

you say, I can only take number 2 and number 4, and I can't take number 7. You know. And people get confused and so what they do is, they just end up throwing it all away.

In the US, the -- it doesn't go to recycle, it goes to landfill. And because we have managed landfills we don't have as much of a waste problem. In Asia it doesn't even go to a managed landfill. It just goes into an open field and gets piled up, and then when the monsoons come and the rains come it washes out to sea. It's a real problem. So we've got to address it.

Now, mechanical recycling works great. PET bottle is probably the easiest thing in the world to recycle and many countries will recycle -- in Norway, 97% of these get recycled right back into bottles. And so I think everybody agrees we can do that. There are harder, rigids, and sometimes flexible packaging are the harder things to recycle. These are the ones that will come under attack by the bans.

One of the things that people tend to forget is, the reason plastics have grown so much is because they're durable, they're lightweight, they're inert materials so they're not -- they're not contributing taste or odor to the product, they have a lot of great properties, and compared to glass or metal the CO2 footprint of the plastics is one-fourth or one-fifth of the alternatives. So they're going to continue to grow.

Automobile today has probably 50% plastics in it. When I started at Dow 35 years ago, that number might have been 10% or 15%. It's continuing to move. Because if you want to get lower CO2 emissions and higher fuel efficiency you need to get the weight down, and the more electronics you put on it the more you need to get the weight down. So we've got to come up with different structures.

So we've got to tackle the waste issue, and we can do it through more recycling. But we have to recycle it into different kinds of products. The ultimate solution is, we can get to chemical recycling that takes it back to feedstock that can go back into plastics. That's the ultimate. That would be the equivalent of taking an aluminum can back to a smelter, back to an aluminum can. So that's what we want to try to achieve as an industry. We don't want it going to landfills. We want it to get recycled. That means we've got to work on the whole ecosystem, make it easier for consumer, put all that stuff in a recycle bin and it goes.

Recycle facilities that can sort that out and the stuff that can be mechanically recycled, which is lower energy, great. The harder stuff that needs to be chemically recycled, we have an avenue for that. And then work on scaling that up around the world. And then in the developing world work on the infrastructure for landfill management and waste management. So it doesn't just go to the rivers and the ocean. And that requires a lot of good partners in the value chain. So we worked with four other leading producers. It was Exxon, Shell, BASF, Dow and Lyondellbasell. Got together last year and said, we've got to create a value chain alliance to do this. It's called the Alliance to End Plastic Waste. It's really targeted on all the things we need to do, from innovation, technology, education, cleanup, to deal with the plastic waste issue. It is resin producers, converters, brand owners, retailers, recycle and waste management companies, and we'll have non-governmental organizations in there as well as governments. Because in order to make this happen at a local level, you've got to have -- you've got to take it to a government and have a full solution for them.

We've also got investment partners in there. Circulate Capital is one that's in there with us. They're out tapping into ESG Investment Capital. The alliance is now over 35 members, $1.1 billion committed into the fund. We'll get it up to over $1.5 billion. In my view, it will be 200 to 300 members by the time we get it fully running. And already, without even going out for a call for papers, 350 projects have come in to us looking for money and funding to scale up solutions. So I'm confident that we can get our heads around it and solve it.

You're right. Recycle has to be part of it. Recycle into other useful goods, recycle back into packaging again, and it's going to be, I think -- it's going to take us a while to get there. But we're off to the races and we're making good progress.

Jonas Oxgaard: How do you see Dow being different 10 years from now, based on this?

Jim Fitterling: Well, first thing first. In the plastics business we're a big supplier into flexible packaging. So if you go into any supermarket and go down the food and dairy aisle, flexible packages, resealable packages, a lot of Dow content in there. Many of those are multi-layer structures. Some of those are hard-to-recycle structures. So you've got to take your whole product portfolio and say, I've got to make a plastic that doesn't need to be multi-layer, that can be a monolayer or close to a monolayer structure that can be fully recyclable. So inside the business, their first objective on technology and where we spend the R&D money is make the whole portfolio 100% recyclable. That way, every brand owner has a product on the shelf that's fully recyclable. They get more shelf space for that and then they've got an end-of-life proposition to deal with it.

Secondly, it's through other products that we sell, so compatibilizers. So today you can take some of the hard-to-recycle materials, and you can put them into things like plastic wood. A good example might be a Trex architectural decking. Some of the compatibilizers, some of them are silicone, some of them are other materials, will allow you to take the recycle content in that decking up to as high as 95%. So that's a great upgrade and a better use of that material.

Chemical recycling technologies have to be improved. Today we can make diesel fuel and we can make fuel that can be blended into the gasoline pool out of plastics. We're getting close on technology that can make aviation fuel. That's obviously a big benefit to the aviation industry, which has a footprint that needs to be addressed. The ultimate is getting it back to full circular economy.

So I think there's -- in that, there's a lot of opportunity and there's a lot of innovation that comes into play. And that's how we're focused on it.

Unidentified Audience Member: (inaudible)

Jonas Oxgaard: Okay. This is not the forum for this, though, I'm afraid.

Unidentified Audience Member: (inaudible)

Jonas Oxgaard: Sorry about that. The last question is one that we ask for -- we try to ask for every CEO at this conference. I would say in most other cases, a five-year time horizon is, it feels

like a long time away. In your case, I'm not sure if that is too -- well, it's almost too close. The question, though, is, what investment are you doing today that you think will be the most impactful five years from now?

Jim Fitterling: Yeah. We're doing -- we're doing several. So I would say one of the biggest trends as we look at people going to crude-to-chemicals, or that direction, and I talked about what I think that does to the high end of the cost curve. We're still investing because we think gas to our portfolio is the lowest-cost way to go. So when we originally started the Gulf Coast projects, we talked about a PDH investment which we did, which was a very large-scale investment. We're working on some technology today, piloting that in Plaquemine, Louisiana, which would hopefully allow us to do kind of an FCC cracking of propane to propylene that would allow us to do that at a scale of 125,000 tons but on the same CapEx per ton of capacity.

If that proves itself out, then we look at, where do we go next with that technology. Does that apply -- does that have application to how you produce ethylene? So in that context, you've got to think about 10 and 20 years from now, where you're going to be. And if you think about the way that ethylene has been produced in the industry, it's basically the same as it's been for the last 40 years.

This technology could have the potential to produce it at 30% to 40% lower energy intensity, 30% to 40% less CO2 emissions. That's a game changer long-term. So that is one that we're working on that's a long-term target, where some of the things like the recycle plastics and getting everything 100% recyclable is more in the one-to-three-year window.

Jonas Oxgaard: Okay. With that, thank you very much.

Jim Fitterling: Good. Thanks, Jonas.