Seek Together™

Dow Presents at Virtual 2020 BMO Chemicals & Packaging Conference

Prepared Remarks by Howard Ungerleider, Dow President and Chief Financial Officer
June 24, 2020 at 1:15 p.m. ET

Thank you for having us, John, and good afternoon, everyone.

First of all, on behalf of the Dow team, I hope you and your families are all safe and healthy.

Before I provide a brief update on what we're seeing relative to near-term dynamics, let me just say that challenging times can and should serve as a catalyst for progress as we continue to become a more innovative, customer-centric, inclusive, and sustainable materials science company.

To that end, last week we published a set of commitments and new actions Dow will take to support inclusion and advance anti-racism. We call this plan "ACT" … which is an acronym highlighting the areas of our focus: Advocacy. Community. Talent.

Doing the right thing is a business imperative for Dow. The data is clear … that companies with diverse and inclusive cultures retain employees longer, grow faster and perform better on both the top and bottom line.

Also last week, we launched an ambitious set of actionable sustainability targets.

Dow has a long history in sustainability, and as a leading materials science company, we have the responsibility and opportunity to take action on the pressing, closely linked challenges of climate change and plastic waste.

These targets put us on a path to carbon neutrality by 2050 and a world without plastic waste.

From a carbon footprint perspective, enabling technologies will bring efficiencies to our operations and provide higher earnings, such as our FCDh Technology … increasing our renewable energy purchases at very competitive costs across the U.S. and Latin America … and partnering with Shell to accelerate technology to electrify ethylene steam crackers.

And our plastics targets illustrate our commitment to partner with customers, brand owners and the value chain to significantly increase global recycling, and to redesign and promote sustainable packaging solutions that each of us as consumers want and value.

Similarly, Dow's materials science know-how and strong design collaborations with our customers have helped enable innovative solutions during the pandemic and are reflected in our improved customer experience scores. Recent collaborations for example have resulted in the development of much-needed respirators for healthcare workers … as well as a simplified 3-D printed face shield design.

We're also the first company in our field to introduce GPS tracking of shipments to help our customers plan their operations … given the importance of supply chain visibility, this has exceptional value.

These commitments are core to Dow's ambition to become the most innovative, customer-centric, inclusive and sustainable materials science company in the world and we recognize we must all do more.

Turning to the current economic and business climate...

Exiting first quarter, we all knew this would be a challenging period … and for that reason we indicated we would take more than $1 billion in annualized and proactive cost and cash interventions to ensure we continue to maximize our financial flexibility.

Despite limited visibility, we provided our most informed forward-looking view to be as transparent as possible … and with a few notable exceptions, our expectations remain generally on target.

The actions we took early in the quarter to idle certain assets – most notably in our plastics franchise – have mitigated some of the margin pressures, especially relative to initial market expectations.

In addition, we did see resilient volumes in Plastics through the quarter, which are relatively flat on a year-over-year basis. Strong demand in our packaging and health and hygiene applications helped balance our higher margin functional polymers' exposure to weaker automotive and construction end-markets.

However, the extended pandemic-related lockdowns in April, May, and now into June did create a delay in the ramp-up for consumer durable applications … further lengthening the inflection point in volume recovery for polyurethanes.

But as you can see on slide 2, we have seen gradual volume and sales improvement through the second half of the quarter as economies have begun to reopen and consumers have begun to re-engage ... a positive indicator for the rest of the world and for the remainder of the year.

Solid demand trends continue in the packaging, home care, industrial and institutional cleaning, and health and hygiene industries.

Packaging and DIY Coatings volumes have been relatively flat through the pandemic, with second quarter volumes up through May year-over-year, and the signs from our order book as of today show continued strength in June.

While the pace of recovery in the quarter was delayed from our prior expectations, we do expect sales to remain in line with the midpoint of our guidance.

Looking at the heat map, we saw gradual incremental gains from April to May … with expectations for further revenue improvement in June. Also, as you can see on the slide, year-over-year volume declines in April and May were in the low- to mid-double-digit percentage range, while June appears to be down low- to mid-single digits.

However, the composition of sales by segment is a bit different than what we initially expected, driven by the lower spending in consumer durables and big-ticket items.

We have seen a softer restart in automotive and construction … with U.S. automotive sales in May coming in at a pace of 12.2 million annualized … down significantly from the prior year's 17 million vehicles sold. And consumers continue to take a cautious approach to large purchases such as furniture and appliances.

This more sluggish 2Q recovery in durable consumer items has significantly impacted our Industrial Intermediates and Infrastructure operating segment … with polyurethanes having the greatest exposure to these end-markets. Going into the second quarter, we expected demand declines in our polyurethanes applications in the ~15-20% range … but now believe it will be closer to the ~25-30% range.

When combined with lower operating rates and fixed cost impacts, we expect an additional $350MM headwind to total EBITDA in the second quarter versus current market expectations, primarily across our Industrial Intermediates and Performance Materials & Coatings segments.

Approximately 2/3rds of this impact can be attributed to the delayed and slower recovery in automotive, construction, appliance, and furniture sectors.

The remaining 1/3 is being driven by margin pressure due to lower demand, which is negatively impacting pricing power, along with MEG softness. ... which impacts our EQUATE joint venture.

The good news is we have seen a pretty significant rise in Brent crude oil prices from improved supply/demand fundamentals which is driving higher feedstock costs. And while this should prove to be supportive to our product prices going forward, it is creating an additional punctual headwind for margins in Q2.

It is encouraging to see the pace of recovery beginning to accelerate in June in almost every value chain in our portfolio.

Our order books and shipments for this month show that volume expectations continue to improve across all of our businesses.

On the geographic front, we have seen particular improvements in China in the quarter … and although EMEAI and North America were generally slower to restart than originally expected, we’re beginning to see improvements across most sectors here as well.

And as demand continues to improve and our operating rates increase, we should begin to see incremental margins improve.

Economic data for North America is starting to reflect a positive inflection point. In May, for example… Retail sales rose more than 15% … and recovered more than 60% of the declines from the prior three months. Although still at low levels, U.S. industrial production experienced its biggest monthly increase in 80 years. And the seasonally adjusted annual rate of light vehicle sales rose 40%.

These are all positive indications of the continued improvement in North America, which we would expect to eventually extend to Latin America in the second half of the year.

The $1 billion in actions we began to take at the start of the quarter have proved beneficial … and given the continued uncertainty on the pace and slope of the recovery, we will remain disciplined in managing through this environment.

To that end and to ensure we maintain our best-in-class cost structure, we will be taking further cost actions to continue to retain our financial strength. We plan to share more specific detail on these actions on our second quarter earnings call.

This disciplined approach will help us remain poised to capture sales and incremental margin uplift as the macro economic improvement continues to take hold.

To close, we will continue to focus on cash generation, balancing production to demand, managing CapEx and costs to our new targets … and ensuring safe, sustainable operations and a healthy workforce.

And on our cash flow, I want to highlight that we have delivered higher cash from operations and higher free cash flow versus the same quarter last year … every quarter since spin.

Looking forward, the growth opportunities we continue to have in Packaging, Infrastructure, and Consumer applications represent a significant growth potential of more than >$400 billion in addressable market opportunities ... and that remains unchanged!

So going forward, we remain very well-positioned to leverage our innovation as well as our market, application and product positions to continue to drive accelerated value growth.

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Cautionary Statement about Forward-Looking Statements
This presentation contains “forward-looking statements” within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In this context, forward-looking statements often address expected future business and financial performance, financial condition, and other matters, and often contain words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “opportunity,” “outlook,” “plan,” “project,” “seek,” “should,” “strategy,” “target,” “will,” “will be,” “will continue,” “will likely result,” “would” and similar expressions, and variations or negatives of these words. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Forward-looking statements include, but are not limited to, expectations as to future sales of Dow’s products; the ability to protect Dow’s intellectual property in the United States and abroad; estimates regarding Dow’s capital requirements and need for and availability of financing; estimates of Dow’s expenses, future revenues and profitability; estimates of the size of the markets for Dow’s products and services and Dow’s ability to compete in such markets; expectations related to the rate and degree of market acceptance of Dow’s products; the outcome of certain Dow contingencies, such as litigation and environmental matters; estimates of the success of competing technologies that may become available, the actual and potential impacts of the coronavirus disease 2019 (“COVID-19”) pandemic and the recent excess oil supply and related drop in oil prices and expectations regarding the benefits and costs associated with each of the foregoing.

Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Forward-looking statements are based on certain assumptions and expectations of future events which may not be realized and speak only as of the date the statements were made. In addition, forward-looking statements also involve risks, uncertainties and other factors that are beyond Dow’s control that could cause Dow’s actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. These factors include, but are not limited to: fluctuations in energy and raw material prices; failure to develop and market new products and optimally manage product life cycles; significant litigation and environmental matters; failure to appropriately manage process safety and product stewardship issues; changes in laws and regulations or political conditions; global economic and capital markets conditions, such as inflation, market uncertainty, interest and currency exchange rates, and equity and commodity prices; business or supply disruptions; security threats, such as acts of sabotage, terrorism or war; weather events and natural disasters; ability to protect, defend and enforce Dow’s intellectual property rights; increased competition; changes in relationships with Dow’s significant customers and suppliers; unanticipated expenses such as litigation or legal settlement expenses; unanticipated business disruptions; Dow’s ability to predict, identify and interpret changes in consumer preferences and demand; Dow’s ability to complete proposed divestitures or acquisitions; Dow’s ability to realize the expected benefits of acquisitions if they are completed; the availability of financing to Dow in the future and the terms and conditions of such financing; disruptions in Dow’s information technology networks and systems and risks related to the actual and potential impacts of the COVID-19 pandemic and the recent excess oil supply and related drop in oil prices. Additionally, there may be other risks and uncertainties that Dow is unable to identify at this time or that Dow does not currently expect to have a material impact on its business.

Risks related to achieving the anticipated benefits of Dow's separation from DowDuPont include, but are not limited to, a number of conditions outside the control of Dow, including risks related to: (i) Dow's inability to achieve some or all of the benefits that it expects to receive from the separation from DowDuPont; (ii) certain tax risks associated with the separation; (iii) the failure of Dow's pro forma financial information to be a reliable indicator of Dow's future results; (iv) Dow's inability to receive third-party consents required under the separation agreement; (v) non-compete restrictions under the separation agreement; (vi) receipt of less favorable terms in the commercial agreements Dow entered into with DuPont and Corteva, Inc. ("Corteva"), including restrictions under intellectual property cross-license agreements, than Dow would have received from an unaffiliated third party; and (vii) Dow's obligation to indemnify DuPont and/or Corteva for certain liabilities.

Where, in any forward-looking statement, an expectation or belief as to future results or events is expressed, such expectation or belief is based on the current plans and expectations of management and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. For a more detailed discussion of Dow’s risks and uncertainties, see Part I, Item 1A of the Dow Inc. and TDCC combined Annual Report on Form 10-K for the year ended December 31, 2019 and Part II, Item 1A of the Quarterly Report on

Form 10-Q for the quarterly period ended March 31, 2020. Dow Inc. and TDCC assume no obligation to update or revise publicly any forward-looking statements whether because of new information, future events or otherwise, except as required by securities and other applicable laws.

Separation from DowDuPont

On April 1, 2019, DowDuPont Inc. ("DowDuPont" and effective June 3, 2019, n/k/a DuPont de Nemours, Inc. or "DuPont") completed the separation of its materials science business and Dow Inc. became the direct parent company of The Dow Chemical Company and its consolidated subsidiaries ("TDCC" and together with Dow Inc., "Dow" or the "Company"), owning all of the outstanding common shares of TDCC. For filings related to the period commencing April 1, 2019 and thereafter, TDCC was deemed the predecessor to Dow Inc., and the historical results of TDCC are deemed the historical results of Dow Inc. for periods prior to and including March 31, 2019. The information in this report reflects the results of Dow and its consolidated subsidiaries, after giving effect to the distribution to DowDuPont of TDCC's agricultural sciences business ("AgCo") and specialty products business ("SpecCo") and the receipt of E. I. du Pont de Nemours and Company and its consolidated subsidiaries' ("Historical DuPont") ethylene and ethylene copolymers business (other than its ethylene acrylic elastomers business) ("ECP"). The separation was contemplated by the merger of equals transaction effective August 31, 2017, under the Agreement and Plan of Merger, dated as of December 11, 2015, as amended on March 31, 2017. TDCC and Historical DuPont each merged with subsidiaries of DowDuPont and, as a result, TDCC and Historical DuPont became subsidiaries of DowDuPont (the "Merger"). Subsequent to the Merger, TDCC and Historical DuPont engaged in a series of internal reorganization and realignment steps to realign their businesses into three subgroups: agriculture, materials science and specialty products. Dow Inc. was formed as a wholly owned subsidiary of DowDuPont to serve as the holding company for the materials science business.

Unaudited Pro Forma Financial Information

In order to provide the most meaningful comparison of results of operations and results by segment, supplemental unaudited pro forma financial information has been included in the following financial schedules. The unaudited pro forma financial information is based on the consolidated financial statements of TDCC, adjusted to give effect to the separation from DowDuPont as if it had been consummated on January 1, 2017. For the three months ended March 31, 2019, pro forma adjustments have been made for (1) the margin impact of various manufacturing, supply and service related agreements entered into with DuPont and Corteva in connection with the separation which provide for different pricing than the historical intercompany and intracompany pricing practices of TDCC and Historical DuPont, and (2) the elimination of the impact of events directly attributable to the Merger, internal reorganization and business realignment, separation, distribution and other related transactions (e.g., one-time transaction costs). The results for the three months ended March 31, 2020, are presented under accounting principles generally accepted in the United States of America ("U.S. GAAP").

The unaudited pro forma financial information has been presented for informational purposes only and is not necessarily indicative of what Dow's results of operations actually would have been had the separation from DowDuPont been completed as of January 1, 2017, nor is it indicative of the future operating results of Dow. The unaudited pro forma information does not reflect restructuring or integration activities or other costs following the separation from DowDuPont that may be incurred to achieve cost or growth synergies of Dow. For further information on the unaudited pro forma financial information, please refer to the Company's Current Report on Form 8-K dated June 3, 2019.

General Comments

Unless otherwise specified, all financial measures in this presentation, where applicable, exclude significant items.