

Alliance Bernstein Thirty-Sixth Annual Strategic Decisions Conference

9:00 AM, May 28 | Dow: Jim Fitterling, Chairman and CEO (DOW)

Jonas Oxgaard:

Morning everyone, and thank you for joining. This is Jonas Oxgaard from Bernstein, and it's my great pleasure to host Dow Chemical with CEO Jim Fitterling. So I'm going to hand it over to Jim in a second. Before we do that, just to remind everyone that we're doing questions live over Pigeonhole. On the left side of your browser, there should be a link for Pigeonhole. Click that. A browser will pop up, and the live stream will continue in the other browsers. Enter questions or vote on the existing one, just even bubbles to the top. Also, at the end of the session, there'll be a Procensus poll that will take about 60 seconds of your time to see what sentiment is, and compared to other investors, results live as they come in at the end of the poll.

If you have any technical problems, please reach out to your salesperson or corporate access and deal with it as quickly as you can. So with that, I'm going to hand over to Jim who has a few minutes of prepared remarks before we go to Q&A. Jim, thank you for coming.

Jim Fitterling:

Yeah, thanks a lot, Jonas for having us, and good morning to everybody out there. First of all, thanks. On behalf of the Dow team, I hope that your families are safe and healthy with everything that we've got going on around us. Any of those who are in Michigan that might've been affected by the floods that we had here last week, our thoughts are with you and hoping for a safe and speedy recovery from that.

I'd like to begin today just with a brief update on some of the proactive measures that we've been taking and talk about what we announced, the first quarter earnings, talk about the proactive measures we've been taking on COVID-19 and then at the end just give you a quick overview of outlook for second quarter and how we see demand materializing and the trends we've seen in April and May.

In first quarter, in light of the challenges that we face from COVID-19 and also the sharp decline in oil prices, we delivered a pretty solid first quarter. We followed through on what we shared at earnings. We've implemented several proactive measures that we're taking to total up to more than a billion dollars in interventions. We've reduced our capex for 2020 by $750

million year over year. That brings it to 1.25 billion this year. We've trimmed our operating expenses by an additional 350 million, and we expect to release 500 million more cash from working capital from the cash side of the equation this year. So those actions will enhance our financial position through the current market conditions and will help us through the rest of 2020.

Earlier this year, we also announced our decision to balance production from our assets with demand by idling some polyethylene units and reducing some rates across the rest of our product portfolio. These actions were utilized primarily to clear the congestion in export markets that had come to almost a full stop and enable a healthier balance of supply and demand ultimately to support pricing. All throughout, we've continued to look for ways to contribute our time and our talent and material science expertise to help fight and combat the pandemic while opening some new opportunities for innovation and business.

Just last week, we announced a collaboration between Whirlpool, Dow, and Reynolds Consumer Products, and we provide their much needed respirators to healthcare workers. That's on top of many announcements that we made up till last week. Last week also, we published a return to the workplace playbook which is a very comprehensive guide from a manufacturing standpoint on how to get back to the workplace and how to bring more colleagues back into the workplace when the time is right. We will ultimately come back to the workplace but in a gradual and phased approach as we're allowed to bring more people in.

As businesses and communities work together towards reopening the economy, we need to evaluate and outline how we can bring people back in a manner where they feel safe in returning to work. At Dow, about one-third of our global workforce has been designated as essential, and they've continued to operate our facilities right through the pandemic. We've learned a lot about how to ensure a safe working environment during this timeframe. We learned a lot from our operations in China where this all started and also around the world. So we're sharing those best practices with companies and the lessons that we've learned and that have been successful for us.

I'd say the first one is screening as a first line of defense anytime somebody comes to work at a Dow facility or even comes to visit a Dow facility or drives a truck into a Dow facility to make a delivery or shipment. This would include taking temperatures and undergoing a series of questions every time they come in. It also includes proper PPE and social distancing, which is the second critical element. Proper PPE for us means that when we go back and when we go into work at a facility, we're going to wear a face covering. We might not all wear an N95 mask, but we will wear a face covering to protect the population from transmission to each other. Then there's sanitation on the site. We've really stepped up sanitation efforts at all of our facilities around the world.

I'd say finally, I would add in there testing and tracing. So today we have capability at all of our sites to do testing of employees, and we work typically with local medical partners to be able to provide that. I would say it's mostly focused today on symptomatic cases and people who are at risk. So as we do contact tracing and we understand somebody's come into contact with somebody with COVID, we'll be able to test them to make sure that we know whether they need to be quarantined or not. We also do that if somebody has been tested positive. We

work with them to do contact tracing to understand how many people they've come in contact with and then work obviously with public health to deal with that.

So it's an excellent document. It's an excellent approach. We put it out there publicly because a lot of our business partners, customers, suppliers, small and medium-sized enterprises, even schools and universities need to develop a plan to be able to go back, and we thought it would be a good contribution to people to share our best practices out there and help guide them on the way back.

Just let me talk a little bit about second quarter before I turn it over to Jonas and then the outlook for the rest of the year. So as we forecasted at earnings, we're still seeing global demand softness from lower economic activity in the second quarter. The recovery patterns in China that we saw, and we've seen China on the industrial side come back to almost 80%, maybe in some cases 90% of where it was pre-COVID, we've started to see some of that play out through the rest of the world. I would say it's very uneven. Europe is lagging the United States right now.

This month we saw the economies begin to reopen, with industries like automotive getting back to work and construction getting back to work. That'll gradually start increasing global demand for some of those essential products. But the divergent demand patterns that we saw in the first quarter have continued in April and May. So very strong on the consumer and disposable side, consumable side. I'd say on coatings, on the do-it-yourself paint and coatings pretty strong. But contracting and constructing has been slow. Durable goods like automotive has been slow. So that divergent demand pattern is still there, although improving.

Countries and companies and states are all taking a very cautious approach to reopening. So we are starting to see some encouraging signs of sequential demand improvement in our forward-looking order book. I would say it just is a weekly evolution. We see signs of strength every week, gradual. It's in line with a gradual recovery that we forecasted in our first quarter earnings call. We're also seeing a general improvement in oil prices as the market balance of supply and demand. So Brent Crude has come up about 80% from the bottom. As that trend of a gradual and sustainable reopening continues through the second half of the year, we expect a recovery will begin to take hold.

In the near term, Dow will continue to stay focused on cash generation and liquidity. Those are the most important things to manage right now. We're going to manage our production to match demand. We're not looking to run assets to build working capital. Just the opposite. We're going to focus on cash generation, and we'll keep our capex and our costs under control and try to see the demand signals that get us back to kind of pre-COVID state before we get into looking at anything on a ramp up of capex.

We continue to be very prudent, focusing on the decisions that we have in our control so that we can emerge stronger and have some good uplift out of the cycle. So with that, Jonas, I'm happy to open it up for Q&A and see what's on everybody's mind.

Jonas Oxgaard:

Fantastic. Thank you. If you don't mind, can we start at the flooding? So I hope everyone is okay. Has this disrupted your operations in a material way?

Jim Fitterling:

Yeah. Good question, Jonas. The flood that we had here was not just a normal rain event. We'd had some heavy rains here. But in Midland, North of Midland, about 12 miles are our chain of lakes. They're recreational lakes that people live on. Two dams up on that chain failed, and two large lakes released about 40 times the amount of water that hurricane Harvey released on Houston right down through this region. We had had a little bit of an advanced feel that one of the dams was having trouble on Monday. So on Tuesday, we shut down operations in advance. The water peaked through here on Wednesday and then receded by the end of the week. So on Saturday, we were resuming shipments, and this week we've been restarting the plants once we got some of the mud and things cleaned out of the power substations.

So by next week, we'll be at a hundred percent rate. So I would say you have to remember Midland is no longer just Dow. It's Dow, Corteva, DuPont, Trinseo, SK, Cabot. So it's a big industrial park. Our predominant production here is silicones. That was not affected. So we were able to continue to be able to get that back up and running. DuPont and Corteva are our back up and running as well. So everybody took the same emergency plan, and everybody's on the same recovery plan. Fortunately, our infrastructure is good enough that we were able to handle the surge of water that came through and not have too much damage to the site.

Jonas Oxgaard:

Okay. Moving into the ethylene, I think that's the part of the investors you're particularly interested in. In your earnings call, you talked about reduced P operating rates. I think you talked again right now about softness and demand, and yet you announced a 4-cent price increased in June. So is polyethylene hiked in North America, or how should we think about that price increase?

Jim Fitterling:

Well, I think two things happen on the pricing side. So I think there was just a little bit of a misread on inventories and then how much inventories were out there and adjustments that people were making, operating rates to already match demand. So that changed. The other thing that happened in the month of April and continued into the month of May was exports started picking up. So we started to see product moving back to China. We started to see relaxation of some of the tariffs to get product in. So that's a good sign. Then the other thing was I think there was a little bit of an over correction. You saw what happened with the the oil contracts that the May contracts, when they tanked at the end of April and nobody wanted to take delivery.

I think that led to a little bit of an overreaction in the marketplace, and everybody got into the mindset that things were going South. In fact, at one point, IHS had said prices were going to go down 10 cents during the quarter. It went down four in April, and then they flattened out. We've got a 4-cent increase out there for June. So I think you're going to see that as this demand is coming back, and actually, plastics demand is held up better than just about any chain that we've got. As they see that demand pattern, I think they're going to say, "Well, it hasn't been as dramatic as we expected on the polyethylene side"

Jonas Oxgaard:

Okay. In Asia, we've seen more or less the same trend, right? Prices tanked quickly. But now, prices have been increasing for I think almost three weeks in a row. So what can you tell us about the global supply-demand picture at this point?

Jim Fitterling:

Yeah. I'd say a couple of things have happened. Obviously, naphtha on the ethylene side is kind of setting the floor for what's happening on ethylene. So as you've seen oil come back up, and you're seeing naphtha continue to move back up. That's putting some upward pressure on the pricing. That's moving things up. As I said, demand for plastics has actually been good. When you think about packaging PPE on wovens, some these types of demand applications, they've actually been very strong.

So if I look at linear low density and low density, that business has continued strong. I'd say the one that's probably been hit a little bit harder on demand would be high density going into rigids. Maybe that's slowed down a little bit more into the durables sector. But overall, things are pretty balanced right now. I think that was the other thing people were expecting was that naphtha was going to continue to come down and was going to continue to put more pressure on and actually hasn't put as much pressure and still some good oil to gas spreads available, making the US Gulf Coast still very competitive.

Jonas Oxgaard:

Okay. How do you see that evolving over the next, call it three to six months as we're coming out of lockdowns globally?

Jim Fitterling:

Yeah. So I think as the durable side of the business starts to pick up, as automotive starts to come back, appliances start to come back, you see construction and things like gas transmission pipe and other things start to come back, you're going to see a steady increase in that demand, and we're going to continue on that path. The consumer side, more online shipping and packaging is a good driver for our business. That's going to continue. We still see about a 1.3 to 1.5 times GDP kind of a growth rate across our portfolio. Plastics has always been in that kind of a growth rate, and I would say demand for even new applications, things like disposable medical gowns PPE materials are continuing to increase. So I feel good about the plastics demand picture.

On capacity side there've been a lot of announcements about new capacity coming on that have been delayed or pushed out, in some places canceled completely. So I think that changes the forward supply-demand picture that people have been anticipating, and it just moves that fence out, which means things will tighten up maybe a little bit sooner than we had projected.

Jonas Oxgaard:

Okay. Do you think there's a sustained change in plastic demand post-COVID?

Jim Fitterling:

Look, plastics demand has always been very resilient. When you deal with polyethylene, it's a very functional material. It's very inert. It has very little environmental issues. We're obviously dealing with the waste issues, which was on everybody's mind going into this. But from a demand standpoint, you can do so much with this chemistry. It's so ubiquitous that we've seen a big move. As sanitation and protection becomes more important, you see some trends starting to reverse themselves. We don't sell a lot of material into plastic grocery bags, but you saw a move back towards plastic grocery bags from a safety standpoint that wasn't there before.

You've seen a tremendous move towards higher demand for things like disposable wipes or disinfected wipes. I don't think that's going to change or PPE. I don't think that's going to change. So my sense is that it kind of shows us the strength of the material and the polymer and the chemistry, and it gets people's attention to, there's a reason plastics has grown to be, especially polyethylene has grown to be the largest market in the chemical space.

Jonas Oxgaard:

Okay. You talked about the naphtha decline. Who would you say is the marginal producer of ethylene today, and will this change once we're past the COVID impact?

Jim Fitterling:

I still think naphtha producers are still the marginal ones, the ones that are in the fourth core tile. They can be in different parts of the world. They could be in Asia. They could be in Europe. We've seen some pressures in Europe as well. Europe has the added pressure of demand not coming back as strong as North America or as China has. When we look at it, I would say there's probably 21 million tons of ethylene today that is marginal. If I go back to 2008, '9 timeframe, there was about 4 million tons of ethylene production that was on the bubble. I'd say at that time, about 2 million of it got idled and about 2 million of it got permanently shut down.

Right now, there's about 21 million tons that's on the bubble. I think what you're seeing is you're seeing some reduction of rates to balance demand, and you're seeing that one of the things that people had not anticipated, they assumed naphtha was going to come down and was going to make the naphtha producer more competitive. But what they don't realize is everybody in the world has shifted towards the lighter feats. So if I crack ethane to make ethylene and polyethylene, I get a very high yield out of that essay and I get very few byproducts. If I crack naphtha, I get three times the amount of byproducts that I do for the ethylene.

So now what do I do with that? I have PI gas, I have benzene, I have all these other things I've got to deal with. I've got a transportation market for gasoline and other fuels that has disappeared. So now I have no place for these byproducts to go. That actually puts a drag on that naphtha producer because they can't move it. If they do move it, they have to move it at a loss. So they get no byproduct credits back. So they still are the marginal producer. If you've got more NGO capability and more NGO flax, like ethane, propane, butane flax, you're still going to be the advantage producer in this flight, and that's what we see playing out.

Jonas Oxgaard:

Okay. Given that 25% of North American capacity builds for exports, are you worried about just sustained reduced utilization rates North America, these exports can happen, whether it's economic or logistics reasons?

Jim Fitterling:

I'm not worried about today's capacity. I think if you are building new capacity today, you would be relying on even more of that capacity having to be export to fill it up. So I think if you've got a new asset, you've got the combination of low oil prices, a very changed shale gas environment in the US, and you'd be questioning yourself, "How long is it going to take me to get a return, and what's my cost to build this facility going to be?" I'm going to be dependent on shipping it to where the largest export market is, China and India.

If we're in a trade dispute with China for any protracted period of time, I think anybody that's looking at a big capex project like that is going to say, "Wait a minute. I better see how things settle out here from a trade standpoint," which is totally different from the COVID-19 perspective or from just getting everybody back to work and getting back to a normal demand pattern.

I feel like the capacity that's on the golf today is going to be very competitive, and we'll be able to find a home. In Dow's case, the other thing I feel very good about is we built the lowest cost assets during the cycle of any project that was built on the Gulf Coast. We're half the capex per ton of any of the other projects that were out there. So as we come through this next up cycle, you're going to see that materialize on earnings and cash coming out of this machine, and that's what we built it for. So I think those assets are going to be competitive in any scenario.

Jonas Oxgaard:

Okay. In your earnings call, you said that you had I think five plants taken down. What's the thinking on them coming back?

Jim Fitterling:

Well, one's demand. As demand starts to come back, we can bring those back into... [inaudible 00:23:23] polyethylene plant is a little more straightforward than say I laying a cracker or shutting down a cracker. With a cracker, you can dial the rates down a little bit to balance. With the polyethylene plant, we took the decision to eyelid so that we can run the other plants harder. A little bit of it was mixed too, Jonas. So if you look at it, as I talked about, things like nonwovens, hot-melt adhesives, films for food packaging, and other online e-commerce packaging, that business is strong. So those assets are still running. Assets that were producing more for example, into a durables and rigids where that demand is off more, we need to slow that down or products that were going more into, say the construction side of the business, we'll slow that down until we see that demand come back.

Jonas Oxgaard:

Okay. Is there a risk that if others follow your thinking of bringing stuff back as demand is returning and demand seems to be returning, could we see another leg down in prices?

Jim Fitterling:

Well, I think we have enough visibility to what's going on in the market to be able to balance it. So from our standpoint, we can see weekly what's happening with our demand, and we have an ability to dial that in and balance that demand. We also keep a very tight rein on working capital. So if you looked at first quarter, we delivered a very good first quarter, and we did not plow a lot of cash into working capital. We actually liberated cash from working capital. We've delivered higher cash from operations every quarter since we spun out of DowDuPont.

So our view is we have the visibility to be able to manage that. I think for the most cases, this market has that kind of visibility, and you can dial that in. I would say that it's always when you're moving up out of the cycle, you can always have a few aberrations here or there. But in general, I think people will be able to manage it.

Jonas Oxgaard:

Okay. Last one on the polyethylene side. You mentioned that the demand for high density has been pretty weak. The demand for low density has been strong. We haven't seen that in pricing. All the prices have declined by loosely the same amounts. But this is not just you, right? This has been pretty universally echoed in industry. So what am I missing here?

Jim Fitterling:

I don't know. We're not a huge player in high density. So it isn't an area where I have a ton of expertise to share with you in linear low and low density. It's our biggest volume business. So we see that demand and what's happening there. I'd say on high density, it tends to lend itself to more industrial types of activities. You do get high density uses for home use as well. But they might tend to be more durable, good related types of sales, and that business has been slow. I think, as you see automotive come back, as you start to see appliances come back, you see construction come back, you'll probably see that high density demand pick up even more.

The one side on high density that probably has held up pretty well would be blow molding for bottles. So you think about bleach. You think about cleaners. You think about those detergents, those kinds of things. That demand has been pretty strong. So that's probably having it hold up pretty well.

Jonas Oxgaard:

Okay. Moving over to Sadara. Can you provide an update on where you are today?

Jim Fitterling:

Right. So we were able to get the final logistics agreement signed with Sadara, which gives us all the elements of project completion, which was a big step for Sadara. Then Sadara and Dow and Aramco have a joint team together that's working with Sadara on the refinancing and reprofiling of that debt. So Sadara has hired an investment bank to lead that activity, and

they've been engaging with... A lot of the lending, the project financing for Sadara was export control agencies, the largest being US XM. So they've been engaging with the ECAs and the lenders to start that process and renegotiate that debt. Our goal is to have that done by the end of this year so that we can get that reprofile and have Sadara in a position where it can stand on its own feet and manage its own repayment schedule.

Most of the money that we've been putting in, as you know, we put in 500 million last year, that's what we plan to put in this year, has been to repay principal on that existing lending. Aramco as well has their portion, which is at a billion dollars that they've been putting in to pay their part of the principle. So what we're trying to do is get Sadara into more of a cash neutral position, where we're not having to put that money in every year for them to continue to operate. That's our objective, and we're trying to get that done by the end of this year.

Jonas Oxgaard:

Okay. When you guys announced Sadara a long time ago, there was some dependence on crude oil for their earnings outlook. So what does Sadara earnings look like in a $30 crude world?

Jim Fitterling:

Yeah. Actually, I would say on a demand side, Sadara is seeing the same kind of trends that I mentioned to you. A big portion of Sadara's output is polyurethane. So they've seen a pretty big step down in demand on that side. On the other hand, they crack a lot of naphtha, which they need for all that intermediate chain to make the polyurethanes and the isocyanates. Those costs coming down have actually helped. So in first quarter, you actually see a $20 million year over year improvement, which most people would probably think, Sadara is shipping into China. They're being impacted by COVID, oil price is down, yet they had a $20 million improvement year over year. Well, a lot of that's because the cost position on the naphtha part of the equation came down.

The ethane part is there, and it's fixed. But most of that ethane is being converted to ethylene and into polyethylene. So that part of the equation has been pretty stable throughout. So my expectation is their cost position from a feedstock cost standpoint will be better throughout this year. They have dialed down rates on polyurethanes like we have to balance demand. Then with China starting to pick back up, they'll see that demand come back up, and we'll start to see some improvements coming out of that. They're all [crosstalk 00:30:24].

Jonas Oxgaard:

Okay.

Jim Fitterling:

The other thing I would say about Sadara is they're also working on getting more fixed costs out. So they've been continuing to work on that. As they work through this refinancing with the lenders, they're working through a lot of those questions and those challenges.

Jonas Oxgaard:

Okay. It feels like I'm asking you this almost every time I see you. But under what conditions would you consider divesting it?

Jim Fitterling:

I want us to get it first refinance, right? Remember, we went into this as a partnership with Aramco to really bring new technologies and other technologies into the kingdom for the kingdom's desire to build out and to diversify. So I think we've got to get to a state here where it's self-sufficient so that we can then take a look at what are all the options that both Dow and Aramco have for the asset. Initially, when we put it out there, one of the initial challenges was we were 50/50 owners and we were going to IPO 30% of it on the domestic market. With the conditions that we were under, that became not possible.

So now as we get it refinanced, is there a possibility as we go forward to look at IPO in a portion of that back on the local market. I think we'll have to see if that materializes or not.

Jonas Oxgaard:

Okay. Thank you. Looking beyond the or the polyethylene ethylene stuff, you mentioned polyurethanes. It's been very weak. What about the ethylene oxides?

Jim Fitterling:

Ethylene oxides have held up pretty well. MAG was under some price pressure. So we saw that through our [inaudible 00:32:11] joint venture. But those prices have bottomed and started to bounce back a bit, which is good. A lot of MAG goes into polyester production and also PET bottles for water and beverages and other things. So we're starting to see some of that come back. EO derivatives into cleaning chemicals, ethoxylates for cleaning has been very, very strong. One of the growth projects we have this year is to expand our derivative production on the Gulf Coast to keep up with one of the big consumer brands companies who is expanding one of their lines of cleaning materials.

So that continues to go well. I would say EO derivatives into the oil and gas space, oil and gas rigs right now in the US are at about a 33-year low. So there's some pressure on the services sector and some pressure on the oil and gas demand. But the rest of the demand in EO derivatives is very solid.

Jonas Oxgaard:

Okay. And the siloxanes.

Jim Fitterling:

Yeah. Siloxanes. I would say silicones in general has seen similar demand patterns. So the consumer side of the business is good. The industrial side is a little bit slower. So think about large commercial construction projects have been slow. We just started to see in Europe, in the US people go back to large commercial production, commercial construction projects in the month of May. So that's good. So a lot of silicones that we sell go into glass glazing for big

architectural buildings, skyscrapers and things. That's a high volume use. Led lighting which goes into a lot of the facilities. Then you get into consumer applications. So in applications like soaps and detergents, shampoos and things, that's held up pretty well.

Cosmetics is off. Obviously, people are not going out socializing as much. So the high end cosmetics has slowed down a bit. But the other healthcare and personal care items have continued to grow. Then on the food side and the consumable side, the packaging side, that business continues. Siloxanes itself on the upstream because those big construction demands are down, there's plenty of available siloxane. So you've seen in that area that different producers who have had assets down have kept them down. Maybe they've been down for turnaround or something else has been going on. They've kept those down to balance out demand.

I'd say what's happened is just like with ethylene, any talk about growth projects has been pushed out into the future, and people are actually looking at idling some capacity to balance demand until we see us back to a pre-COVID level.

Jonas Oxgaard:

Okay. So your auto for pricing is relatively positive?

Jim Fitterling:

Yeah. I think we bottomed in the last couple of quarters, and it's stabilized, and I think it's going to start to improve from here. So I don't see a big down trend on it. I do see some potential for it to continue to move up as the economy's reopened.

Jonas Oxgaard:

Okay. Switching over to cash and more a high level strategy. Has your stance on M&A changed at all with COVID, with the asset values being depressed? Are you still committed to not doing transformative deals?

Jim Fitterling:

Yeah. Look, we don't have a lot of cash to do M&A right now. We need to navigate through this pandemic, and we need to get demand back as people get back to kind of the pre-COVID state. We were always on the lookout for some small bolt-on acquisitions for downstream, like in polyurethane systems and areas like that. But I would say there's very little M&A activity out there right now, and we're not actively out looking at that. So I don't see that coming back onto the screen for a while.

Our first priority is to get the Sadara deal refinance to navigate through this pandemic and then get back to our own growth playbook. We had about $4 billion worth of organic growth projects. I had mentioned before that the projects that we build down on the Gulf coast were the lowest cost assets in the world, largest cracker in Texas, Texas and the world, and Texas nine, and the lowest cost. We've got $4 billion worth of growth. That is about 50% of that capital cost per ton. So that's one of our highest areas of return. When the economies get back

to pre-COVID levels, then we'll look at how we bring that on. Otherwise, I think it's just not a strong market for M&A right now in our space.

Jonas Oxgaard:

Okay. So you mentioned you don't have a lot of cash at hand. But if I'm looking at the year ahead, right, if you have reduced working capital, reduced capex, you have tax rebates coming in, you have an Olin payment. You might get some more Nova payments. You might actually end up with excess cash. So how are you thinking about the use of that?

Jim Fitterling:

We ended the first quarter with 3.6 billion of cash on hand. We've got $12 billion of total liquidity. So from a cash and liquidity standpoint, we're in a good shape. We've got about 1.25 billion of capex, and we got a $2.1 billion dividend that we need to pay. So our priorities for cash has been pay that dividend, obviously, keep our assets running reliably with the maintenance capex, which is about a billion dollars for maintenance capex. Then if we have it available, we want to pay down some debt. So if I add another 500 million to a billion dollars, my next priority would be paid down debt.

We've been very consistent with that, with all of our shareholders and with the ratings agencies, and I think everybody's aligned with that thought process on cash. We did some share buybacks in the first quarter. I think the number was about 125 million, if I'm not mistaken. We have not done any in the second quarter. I would just say from a cash and liquidity and priority standpoint, we were not planning on doing any for the rest of the year. We want to support that dividend. We want to keep the assets running reliably, and we'd like to pay down some debts.

Once we get Sadara done, once we get back to pre-COVID type demand levels and get a few of those things behind us, then we can start to have a discussion about what's next.

Jonas Oxgaard:

Okay. On the flip side, you've cut capex quite a bit. You've been below depreciation for quite some times. Now, do you have concerns about underinvestment?

Jim Fitterling:

No. I don't because we made a lot of investments in the five to six years just prior to this, and we were able to get them online ahead of everybody else and get them online at lower costs than everybody else. So we'll see that materialize as we come out of this trough and into the next peak. You'll see that come through in the earnings. I think the question is, where do you put that investment? So we've been focusing on higher return investments that are quicker payback.

I mentioned ethoxylates for a very large customer. So we signed a billion dollar contract with one large consumer brands company, and we're building an asset and Louisiana for them. Last year, we did 18 downstream functional silicones projects which are much higher value add continuing to invest in systems to grow that business, continuing to look downstream at new

developments that have come out. I mean, I don't know if we'll be in the hand sanitizer business for the long term. But we're in it now because of COVID. So I think that's spawned a lot of innovation and gotten people to think about, what can we do downstream for those investments.

We always have to think about, when we get back to that demand period and when things tighten up, what's the next wave of expansion? We've got people looking at that. But we're not anywhere close to a big mega project. That I think is down to the path. I want to see how global trade and how the trade relations develop between the US, China, and other parts of the world before we start thinking about a big mega project somewhere that's based on export.

Jonas Oxgaard:

Okay. Oh, as you're thinking about reinvestment again, what area would you say is most attractive, is silicones, more polyurethanes, something completely random?

Jim Fitterling:

Silicones will be at the top of the list from a silicone's downstream investment standpoint. That technology, as I mentioned, plastics earlier, that silicones technology, the temperature range and the application range of uses of it is tremendous. So it's a very functional technology that goes into a lot of applications. I would say we want to continue to grow our plastics franchise. About 25% of our franchise now is in what we call functional products, which are more elastomers and higher end materials which do not have the price sensitivity to oil.

So they tend to hold their price through time as oil moves up and down, whereas some of the other commodities will move up and down with oil. So we want to continue to grow in those spaces. Obviously, anything we can do downstream in polyurethanes lifts up the value and the return to isocyanates and polyols, we want to continue to look there. As we've looked at coatings and looked our chemistries, that area of coatings, adhesives and sealants is an attractive area that would bring higher value into the portfolio. So those are the kinds of things that we're thinking about.

Jonas Oxgaard:

Okay. On the flip side of this, you sold off chlorine and buy-backed chlorine deployed on contract. One of your competitors just did the same in propylene oxide. Is there any consideration of doing more of these selling off the assets and buying back the commodity you need?

Jim Fitterling:

Yeah. Well, on the chlorine case, it was a case of best owner. So we felt like you needed somebody in that space who had some more interests for the chlorine molecule than we had, and we weren't going to be able to put our capital towards it. Olin was a great partner because they looked at the derivatives we took out with the chlorine divestiture, and then they brought into the equation bleach. They took a look at their whole portfolio and said, "We can take these

assets, and we can actually expand off of this and grow the business." So it was a good fit with them.

I think where we have cases like that, we would look at that. I don't see that inside the portfolio today. But the one thing I would mention is that we did look at our infrastructure assets as well, and we've got we've got some amount of our asset base that's in infrastructure, where it may be a better owner mindset to have somebody else take a look at that, and we'll continue to take a look at that. So it could be power and utilities types of assets, other things where somebody can leverage off of that position.

Jonas Oxgaard:

Okay. I guess tangential to that, so many of your international businesses are JVs, not just Sadara, but so the Kuwaiti, et cetera. Have you considered either buying out your partners or divesting to focus the operations?

Jim Fitterling:

Yeah. We're really down to three primary JVs today, our tied joint venture, our Kuwait joint venture and Sadara. We talked about Sadara earlier. Our relationship with the Kuwaitis is also very good, and we've continued to work with them. Kuwait has been really well run, well managed and a good return for us from a joint venture. So as they've continued to want to grow, we've balanced that. We'll have to see if they want to continue to grow that or how we want to continue to move forward.

Thailand's a very unique position. We did that partnership to be able to have a good footprint in Asia at the time. So we've not had any discussions with them about any change in the ownership structure. But we do constantly have discussions about how to improve the returns and what's the best next strategic move to make there.

Jonas Oxgaard:

Okay. And-

Jim Fitterling:

I would say we are cognizant of the investors feelings about joint ventures and the investors feelings about how the returns on joint ventures manage the books. So that is a very strong element of strategy that Howard and I look at all the time as we go forward. So we understand those concerns, and we hear them, and we will take action.

Jonas Oxgaard:

Makes sense. What about the sale of rail and other infrastructure assets that was reported two weeks ago maybe?

Jim Fitterling:

Yeah. So I won't comment specifically on the rumors and things that are out there. I would just say that we went into this as part of our spin-out saying that we would look at everything from

best owner mindset. As we looked at our balance sheet, there are about 20% of our replacement asset base that I would call non-revenue generating assets. If you look at the change that happened with us coming out of DowDuPont, we're a different company with a different footprint.

So if you look at some of the infrastructure that we have and you look at it and you see there are global infrastructure companies out there who may find that attractive, who may be able and willing to come in and look at that infrastructure and may pay a higher multiple than I trade at for that, and they may look at something like that and say, "I can take that footprint, and I can grow that business, and I can create a bigger service business out of it," that's a win-win scenario. So we will be open to a best owner mindset on assets like that, where it makes sense. It will need to be able to give us as good or better pricing than what we have today to be able to move goods and services, and they need to be safe operator, and they need to be somebody that is going to maintain the equipment to good standards.

Jonas Oxgaard:

Okay. Thank you. Last question for the day before out of time here. As we look beyond or through COVID here and beyond, have you seen an opportunity to reimagine how you run the company?

Jim Fitterling:

Yeah. Well, certainly, there's been a lot of discussion on workplace flexibility and return to work. So in return to work, I think when you go back into the manufacturing environment, it's pretty understood and pretty straight forward that we're going to move more people back into the sites, and we can't just continue to operate on a small crew forever, especially as demand comes back. But when you get into the office space area, we made the shift from being in the office every day to being at home seamlessly, almost overnight. We have a pretty good digital platform. Dow has invested over the years in a very good digital platform to connect the global enterprise. That has worked better than I think everybody imagined.

Now, working from home every day, puts some stresses and strains on at home. So there's employees that are saying, "I want to get back to the office." And there are people that are saying, "I want to work from home forever." I think what'll happen is we will bring people back into the office, but it may look different than it looked in the past. We're going to be gradual about how we go back. A lot of discussion right now about maybe we first go back to the office in shifts to take advantage of being able to space people out, bring people in for a week and then have them work from home for two weeks. That natural break in the workforce into thirds gives you a kind of a natural spacing inside the office space. Then it gives them two weeks off when they're at home so you can see if anything has happened, COVID related that you need to take action about. So that's kind of the thought process as we go back.

I don't think we'll go to everybody works virtually full time because culture is very important to us. We talked about the flood when we opened up. That culture of how people work together, how they come together, how they respond I don't think gets built just purely from working virtually. That happens when you're side by side with each other, and you're

working in the same space. So I just don't see a world where we're just going to become completely virtual. We still need to build teams and strong teamwork. One of the reasons we couldn't move to remote so easily is we do have a strong team.

Now, if you go to the other extreme and you say, "We're just all going to work virtually forever," is that strength of that team going to be the same as the old way of doing things. I'm not sure. We're going to have to navigate through and find that right balance. But we have said to employees, "We hear you this does help on a lot of workplace flexibility." We don't want to push people back too soon because schools have been closed and other things have... Childcare is not available in some places. So if I force everybody back to work next week, I'm going to create more problems than I solve. So we just need to be sensible about how we do this, and we have a lot of communication going on with the people leaders and the team leaders to make that happen.

Jonas Oxgaard:

Thank you. Yeah. Apparently, my five year old has been listening through the we cast. As you said that, just started shouting for me. So with that, thank you very much. Thank you everyone for listening.

Jim Fitterling:

You're welcome.

Jonas Oxgaard:

As a quick reminder, there's polling left inside of the screen. It takes 60 seconds for that. I appreciate it. Jim, thank you so much for coming.

Jim Fitterling:

Yeah. Stay safe, Jonas. I hope to see you in person again before the end of this year. Okay?

Jonas Oxgaard:

Absolutely. Bye.

Jim Fitterling:

See you. Bye.