Dow Presents at Citi 2020 Basic Materials Conference



PJ Juvekar, Citi
Howard Ungerleider, Dow President and CFO

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PJ Juvekar: Well, good afternoon everyone. I'm PJ Juvekar. Our next company now is Dow Chemical and representing Dow is Howard Ungerleider der, Dow's president and CFO. This is a public event, and please refer to forward-looking statements in the materials and the slides that Dow will present, and I want to introduce Howard Ungerleider der. Howard is the CFO of Dow. Before that, he was a CFO DowDupont. During that period, he merged two companies into one, and they split them into three companies. As a CFO, that must be a nightmare, but what's amazing about Howard is, is during that entire period, he never lost his sense of humor. Howard, the stage is yours. I know you want to make some public prepared remarks and then after that, we'll launch into Q and A.

Howard Ungerleider: Yeah, absolutely PJ. Look, thanks for having us. Thanks for that very kind introduction. Admitting that I have a sense of humor, that's great. I do appreciate that and look, good afternoon everyone. Thanks for joining us. I'll make a few prepared remarks, and then I look forward PJ to the Q and A. Look, as we shared on our third quarter earnings call, the Dow team really adapted to the shifting market conditions in the quarter, and I would say once again delivering sector leading results. The performance really was enabled by early actions to prioritize cash, to reduce operating costs, to reduce working capital.

We really quickly matched our operating rates to rising demand in the quarter, really continuing the agile and safe operations we have maintained throughout the year, despite the pandemic, the floods in Michigan, as well as the hurricanes on the US Gulf Coast. We've also remained focused on further strengthening our financial profile. We increased our liquidity while reducing net debt by 1.8 billion year-to-date and improving our liability profile at the same time with zero substantive debt maturities now until the second half of 2024. The improvements, we've achieved our balance sheet through the third quarter, including through the pandemic is really something that has been a differentiator within our industry and positions Dow very well for the continued economic recovery.

We also continue to advance our unique to Dow cash tailwinds set to deliver more than $1.5 billion for the year. We closed our $300 million rail infrastructure asset sale in the third quarter three months earlier than originally planned and today, we closed the sale of our select US Gulf Coast marine and terminal infrastructure assets with more than 600 million in cash proceeds to

Dow. Turning to the fourth quarter, so far, the quarter is unfolding as we expected. The rebound off the April and May lows continues at a moderate pace, driving sequentially higher business results, tempered most likely by typical fourth quarter seasonality.

Demand for packaging applications remains resilient with year-to-date volumes continuing to exceed the same period a year ago and while October polyethylene pricing did not increase versus our previously shared expectation earlier in the quarter, we do expect a positive demand fundamentals, tight supply and increasing Brent to continue to provide support to pricing in November and December. From a durable goods and market perspective, demand continues to improve led by strengthening construction and automotive industries, which are really helping to deliver the expected benefits to both our silicones and our polyurethanes franchise order books.

External data showed China industrial production was the first to emerge from the pandemic and has continued to remain solid and is also now indicating increased consumer demand growth year over year. As expected, resilient demand and tight market conditions are also providing support for MDI pricing as well. During our earnings call, we shared that Sadara is also benefiting from improved market dynamics and structural operational improvements. As a result, the joint ventures cash needs from Dow decreased from earlier estimates, and we now expect to contribute approximately 350 million for the year towards Sadara's debt repayment.

Additionally, Dow, Saudi Aramco, and Sadara remain on track to reach a debt reprofiling agreement by year-end, and we now have an agreement in principle with the agency creditors. Discussions with the commercial lenders and the sukuk investors are also progressing as expected. Overall for the quarter, absent any significant impact from the response to the current COVID surge, we expect to be in line with the earnings' guidance we provided on our earnings call. Now despite the volatility and the challenges of 2020, we have also continued to advance our ESG priorities throughout the year as they're both key to our strategy and our ambition.

Earlier this year, we shared with you our new breakthrough sustainability targets to reduce our carbon footprint and address plastic waste. We announced our goal to reduce our net annual carbon emissions by 15% by 2030 and achieve carbon neutrality by 2050. We're confident in our ability to achieve our carbon emission targets. You've already seen examples of our work underway to improve the energy efficiency and the carbon emissions of our own operations. For example, we're advancing low carbon EDH technology with the potential to significantly reduce our energy usage and our greenhouse gas emissions by 40% to 50%.

We're also approximately two-thirds of the way toward our goal to obtain 750 megawatts of energy from renewable resources by 2025 and to that end earlier

this year, we secured new contracts for another 340 megawatts of power. As of July, our manufacturing facilities in Tarragona, Spain are now purchasing 100% renewable power. We also announced several actions to further our leadership role in driving a more circular economy by addressing plastic waste, incorporating sustainable content in our products, and designing recyclable ready solutions with brand owners. In fact, 80% of our packaging products today can now be recycled and already today, many of our products enable a low carbon economy, such as solutions for renewable solar electricity, energy efficient buildings, and electric vehicles.

We're very well-placed to further benefit as the energy construction and automotive industries accelerate their transitions to more sustainable solutions. For example, from a silicone's perspective, electric vehicles utilize three to four times more Dow material than a traditional combustion engine. These high performing materials are commonly used in EV power, electronics, batteries, assembly, as well as driver assist systems. More broadly, we expect to benefit from the development of lower emissions and more easily recyclable products as our customers continue to work toward their own sustainability goals.

Our targets continue to build on our decades-long commitment to incorporating sustainability into how we innovate new products to address the needs of our customers, and ensure our operations are both efficient and sustainable. On that note, we're very proud to have recently been recognized by the Dow Jones Sustainability Index for the 21st year as one of the top companies in the global chemical industry in terms of sustainability performance and solutions. Looking ahead, as the recovery continues to broaden and we move back toward pre-pandemic levels, we expect to see higher margins as differentiated parts of our portfolio begin to return to a more normalized growth, and our multi-dimensional feedstock flexibility continues to ensure lower cost to serve in all regions.

Our ongoing focus on digitalization enabled us to quickly pivot earlier this year to operate and to innovate in a new environment. Innovating at virtual design tables with our customers, engaging in online trade shows and webinars, and continuing to innovate in this space will only further enhance our differentiation over time. We'll also maintain our focus on unlocking additional cash, further strengthening our financial position and our competitiveness through continued evaluation of our non-product producing asset base with a best owner mindset, lower capital intensity investments, innovation and digitalization, supporting operational reliability, and continued diligence on operating expenses, including the removal of structural costs through our current restructuring program.

Together these actions PJ will continue to drive Dow's performance and generate more value creating opportunities for our shareholders as the economy rebounds and PJ with that, I'll hand it back to you and let's get into the Q and A.

PJ Juvekar: Great. Howard, thank you for that. I should also mention that Colleen Kay from Dow's IR team has dialed in, and I should remind investors that if you have any questions as they come up, please email them to me. There's a link on your website, or on your landing page, and you can click on that. I've already gotten some couple of questions. With that Howard, let's get started. As you've seen lockdowns getting reinstated globally in the US, as well as in Europe, have you seen a change in demand for polyethylene, or any of your other products, industrial products?

Howard Ungerleider: The short answer PJ is no. I mean when you think about polyethylene specifically on your question, polyethylene demand has been resilient really through the pandemic. I think I mentioned in the prepared remarks, our demand is up versus year-to-date through the third quarter, and that has continued into the month of November. We've really seen both on the packaging side that resilience, but then clearly since the second quarter, we've seen the demand for durable goods. In P and SP, that's our functional polymers business. Obviously, our polyurethane franchise is heavily tilted toward durable goods, whether that's construction or automotive. We've seen that demand snap back frankly faster than we had originally expected in the third quarter.

So far in the fourth quarter to date, we've continued to see that demand stay strong.

PJ Juvekar: It looks like the industrial recovery will power through this a mini slow down.

Howard Ungerleider: I think it's maybe too early to declare victory in that space. I mean certainly even the fourth quarter, we're still not through the fourth quarter. I would still say it is reasonable to assume typical seasonality, which you typically see a fall off in the last 30 to 45 days of the quarter. I will say candidly PJ, we haven't seen that slow down yet through the month of November. It's December 1st, so there's another 30 days to go, but what I would say even with the colder weather in the northern hemisphere in North America and Europe, you're starting to see a little bit more of a lockdown. We're certainly experiencing that in Michigan with increased cases.

I know you're doing the same in New Jersey and the New York metro area. I think we're all getting used to dealing with that, and certainly travel is being impacted and leisure spending is being impacted. When you think about the industrial economy, so far the third quarter and so far in the fourth quarter to date seems to be hanging in there in a pretty resilient way.

PJ Juvekar: Right. I do want to talk a little bit about the polyethylene feedstock impact, and there's a school of thought, and we had enterprise products present at our conference this year. I think some people are thinking that with reduced rate count, oil production could drop next year and if oil prices go up, then ethane could rise. I mean again that's a theory, but how do you think about it? What's your review on it?

Howard Ungerleider: Yeah. I mean look, I think we certainly saw earlier in 2020 the cost curve became a little bit less steep with lower oil and then higher natural gas prices. I think the oil to gas ratio has been hovering in the mid-teens. When you look forward and as you've seen the economic activity continue to improve, you've actually seen Brent move up. Now you've got Brent in the high 40s, and natural gas actually moving down some and the ethane advantage even widening. I don't want to make a prognostication for the next two or three years, but certainly, you would expect as economic activity improves, that likely brings oil price along with it.

NAFTA as you know well and as our investors know well, NAFTA typically trades with Brent and polyolefin pricing typically trades with NAFTA because NAFTA is representative of about two-thirds of the world's cracker production. I think the NGL advantage is here to stay. It's probably going to be a little bit lower than what it was in the last two or three years before the pandemic, but it's still going to be here. Then from a Dow perspective, I mentioned Colleen's favorite term in the prepared remarks multi-dimensional feedstock flexibility. This is something you know you've been covering us for a long time PJ.

This is something that we've invested in on purpose in every region around the world, whether it's the physical location of our assets in Alberta or Kuwait or Argentina or the US Gulf Coast, or it's in furnace feedstock flexibility, where we have max ethane capability that is best in class in the US Gulf Coast. We have the ability to crack up to 65% LPGs in Europe which is a NAFTA crack, not to mention our assets in the Middle East and in Argentina.

PJ Juvekar: Right. I'm going to keep moving and let's move on to polyurethanes. I can always come back to polyethylene-

Howard Ungerleider: Sure.

PJ Juvekar: ..., but I do want to take questions from the audience. The urethane chain, the outlook seems quite strong, not just for you, but for the entire chain. If I look at MDI, polyols, propylene oxide, it's driven by demand in durables. Housing has been strong. Do you see that this robustness particularly in MDI continue next year?

Howard Ungerleider: Yeah. I mean I think it does have some legs, so obviously we'll depend on the macroeconomic activity. I think when you look at the urethane assets, they tend to be the most complex multi-step chemistry starting with chlorine or propylene, depending on your feedstock all the way through to PO, to polyols, to isocyanates and then ultimately to systems. Clearly, we shut down the industrial economy in the second quarter, right? First quarter in China and then second quarter North America and Europe, and really shut down a lot of construction activities. We also shut down automotive, right? I mean if you think about it, no cars were manufactured really in North America or Europe in the second quarter.

Then since the second quarter, things started to really rebound and demand has been resilient, so that snapback in demand, plus trying to bring all those assets back with all the complex steps in the chain that I talked about, it created some supply issues. Then of course you had the hurricanes in the US Gulf Coast and some unplanned outages in Europe that also impacted that. It is a combination and that tightness, it does seem like it's got some legs here for at least the next several months. We'll see how the overall industrial economy goes.

You look at the GDP estimates for next year, and they range from three and a half percent to as much as 7% on a global GDP perspective, but if you take the midpoint of 4% to 5%, that should be enough demand growth to really continue to keep the assets reasonably tight.

PJ Juvekar: Obviously, MDI is doing well. Geographically, where is it doing the best and is that helping out Sadara as well with the urethane chain?

Howard Ungerleider: It's definitely, it's definitely... Look, Sadara matches in many ways the chains that Dow is large in with polyolefins and then polyurethane. You're seeing good strength in Asia, and then followed by Europe, and then followed by North America. That's how I would assess it today. Clearly, automotive strength and construction strength are definitely being supportive. I would say the one area which is more impacting silicones today is in the personal care area. If it's something that's touching face cream, for example, everybody wearing a mask is probably denting high-end cosmetics, high-end lipstick, or high-end moisturizers, or creams. We're seeing a little bit of weakness in the personal care area.

I think the only other area is in de-icing. Obviously, the weather has not been that cold yet. Although with that said, we had about a pretty big winter storm in Southeast Michigan in the last 24 hours. We've seen some snow for the first time, but a combination of not quite as cold the winter to begin with, plus the lack of travel. You're not seeing any strength in our de-icing business or de-icing business is going to be off quite a bit, but that's a relatively small part of our portfolio.

PJ Juvekar: Well, the third leg of the stool if I can call it is silicones and siloxanes. You completed 16 debottlenecking projects in silicones. You have another 12 to complete. Can you talk about the returns on these projects and two-thirds of your siloxanes are still merchant? When do you think you get more of the siloxanes downstream, and what would happen to margins?

Howard Ungerleider: Yeah. Look, I mean as you point out, I mean siloxanes are a key building block of our integrated silicone franchise. We're just now starting to see some pricing strength on what we call the G1 or the siloxanes part of the upstream business. We are continuing to see demand recovery. When you think about electronics, you think about construction. You think about consumer durable goods where silicones plays that side of the house, demand is doing reasonably well. To your

point, we continue to do these debottlenecking projects, and today we consume about two-thirds of our siloxane production internally. Clearly, the goal is to continue to invest downstream and our higher, what we would call our performance silicones area to continue to consume all of that siloxane over time.

That's going to take us several years, but the markets where we participate are all growing one and a half times global GDP. Several years of global growth in that range, even if we don't increase our share of wallet, we'll be able to absorb a lot of that siloxane from a building block perspective.

PJ Juvekar: Yeah, thanks for pointing that out. I think I misspoke. It's two-thirds is internal and one-third of siloxanes is merchant.

Howard Ungerleider: Right.

PJ Juvekar: The cash conversion at Dow has been strong. Cash conversion over the last 12 months and as I know it's near and dear to your heart has been strong. 3Q was 117%. Can you walk through some actions of working capital, and what drove that cash conversion? What happens is you come out of this pandemic and working capital needs go up, and maybe you bring some of your CapEx back, can you talk about the ramp up in CapEx post pandemic and walk us through that cash situation?

Howard Ungerleider: Yeah, absolutely. Well, I was smiling when you said that PJ because thank you for noticing. The cash conversion is something that's near and dear to my heart. It didn't come about because of the pandemic, or because of the economic situation. It really came about as you know well as we were thinking about who the new Dow was going to be as we approached the spin. That was one area where we had a gap between best in class conversion and where we were. We've been in the 70% range for the prior several years prior to spin, and we set the goal to get to a best in class around 90%. So far, we've been able to exceed that number as you point out. We did that with many different levers.

We had some unique tailwinds things like the Nova judgment, things like the Olin ethylene payment, but we also did a lot of heavy lifting in working capital. Your point, we released more than $700 million year-to-date in working capital, and there's more to come. I mean I would say we're looking at two to three days of efficiency over the next two to three years. Also, we've made good progress year-to-date on our best owner non-product producing infrastructure-related assets. I talked about that in the prepared remarks. We did the rail deal. Today, we closed the marine infrastructure deal between the two of them.

That's almost a billion dollars of cash in the bank, and we sold those assets to great partners that are going to provide us long-term, cost competitive service. We're able to unlock the value at the very high multiples. As I look forward into next year, we're going to continue that best owner lens from an infrastructure

standpoint. There's probably going to be two or three days of structural working capital improvements that we'll target assuming the economy continues its progression coming out of the pandemic, and then certainly CapEx will increase. If I had to call it today and we're going to spend 1.25 billion in CapEx this year in 2020, next year's probably going to be in the 1.6 plus or minus range, depending on how we finish the year.

I'm sure we'll talk about that on the earnings call. When I think about how we're allocating our capital in terms of our capital allocation priorities PJ, they're going to be boringly consistent. First, safely and reliably operate our plants. Second, continue to support our best-in-class dividend. Third, incremental deleveraging. Very proud of the team that we've been able to delever 1.8 billion of net debt through this year. I mean in a pandemic year for us to be able to take almost $2 billion of net debt out through the third quarter. We'll likely take another tranche of leverage down again next year, and then likely look at your buybacks, at least to cover dilution starting next year.

We haven't finally made that decision yet. We'll see how the cash flow ends the year and what the economic situation looks like as we head into next year. Then obviously the CapEx increase, we're going to prioritize on lower risk, faster payback, higher return on invested capital projects. I mean that's what our investment thesis was coming out of spin. I think we've been doing everything that we've told the investment community will do in terms of improving our cash flow conversion, continuing to deleverage the balance sheet, continuing to reward shareholders with an industry leading dividend, and continuing to invest in lower risk, faster payback, higher ROC projects.

PJ Juvekar: Right. I'm getting a lot of questions. I'm going to ask final two questions quickly and we'll go into rapid fire more, but my next question, I guess last two questions, one is on Sadara. What's exactly taking so long for debt profiling? It's been a year and a half, and what cash injection would you expect once the debt profiling is finished? That's my first question, and second question is on pension plan. Actually, you have an underfunded pension plan with almost $8 billion of under funding. Rates have been lower, so what do you expect for cash contribution in 2021?

Howard Ungerleider: Yeah. Actually on Sadara PJ, we're exactly on time where we said we would be. We talked about the reprofiling. Earlier this year, we said it was going to take a year. Look, the reality is it is a complex multi-party negotiation. There's three tranches of debt. There's the ECA, the export credit agencies and there's the commercial lenders, and then there's the sukuk investors. I'm pleased to report that we've got an agreement in principle with the ECAs. They have the overwhelming majority of the debt, so that's an agreement in principle. We're now well underway with the commercial lenders and the sukuk investor process.

We are on track to get at least a deal in principle or an agreement in principle done before the end of the year. Sadara continues to actually improve their operational performance and also benefit from some of the tailwinds we talked about earlier in polyethylene, as well as our polyurethane franchise. When we started the year, we talked about needing $500 million from Dow to fund Sadara's debt. That number came down from 500 to 400 and then today, I announced that that number is more likely going to be 350 this year for Sadara debt repayment.

Assuming that we can get that deal finalized with this commercial lenders and the sukuk investors, then there'll be a 350 million cash tailwind because the goal with that reprofiling is to reprofile the debt and have Sadara be able to stand on its own and be cash flow self-sufficient. I would tell you we're on track and on pace. I would expect anybody building a Dow model next year should have a 350 million cash tailwind relative to Sadara. Then finally on your pension question, this year, our pension contribution from a cash standpoint is about $300 million. I would expect next year, it'll be about the same and then also 2022 based on where rates are today, probably about the same.

If rates don't improve, then that number moves up by $300 or $400 million in 2023, 2024 and 2025, but we've got several years before we get there. Let's cross that bridge and we come to it, but certainly for this year, for next year and the year after, 300 million plus or minus is a reasonable number in terms of mandatory pension contributions.

PJ Juvekar: Right. Well, in the next 15 minutes, I want to take the investor questions.

Howard Ungerleider: Okay.

PJ Juvekar: The first question is CapEx question, 18 CapEx was $2.5 billion. How sustainable is 1.6 billion?

Howard Ungerleider: I mean it's certainly sustainable based on where the macro was in 2020. If you tell me that the macro is going to stay at the level that we saw in 2020, then we can most likely still stay at that 1.5, 1.6 level. That's not our base case view, right? Our base cases for continuing economic expansion over time. I would imagine that over the next several years, we'll move our CapEx number back into the two to two and a half billion range. We're not going to rush to that number, right? We're going to we're going to keep capital constrained. I think that's a fundamental responsibility, and that will ensure that we invest in the highest return, lowest risk projects.

This year was a special year where we lowered it to 1.25 like I mentioned earlier. I think next year, probably a 1.6 plus or minus number is a reasonable target. Then if we continue to see macroeconomic growth from there, 2022 would likely be in the two billion plus or minus range as I sit here today PJ. Let's build it one year at a time.

PJ Juvekar: Great, great. The next question is on your divestitures that you just completed, any other assets considered non-code that could be monetized and any interest in selling JVs? You do have strategic value in your JVs.

Howard Ungerleider: Well, in terms of the JVs and the overall portfolio, look, we like the portfolio that we have today. I mean if you think about it, if you think you go back to the Styron transaction, you go back to the Olin transaction, the Dow Corning transaction, the DowDupont transaction, we've been doing a lot of portfolio ships over the last 10, 12 years. Coming out of the spin, the new Dow, we like the portfolio we have, but we have this best owner mindset view, and we have a benchmarking view. When you think about the infrastructure, I'm not going to make any announcements today, but yeah, we have a pipeline of infrastructure-related assets that we're going to continue to look.

If there are better owners out there that will be able to deliver a value creating transaction to Dow and our shareholders, we're going to continue to do more of those, and I would expect that to happen again in 2021. In terms of our joint ventures, I would say we like the joint ventures that we have. They're good performers and I think we're the right owners for those assets at that time, but if there's a better owner, we'll obviously look at that as well, but certainly nothing on our mandatory to-do list PJ.

PJ Juvekar: Great. The next question is twofold. Could you talk about the Chinese siloxanes market? Prices seem to be moving higher. Was that expected and does that mean PMC's up sequentially?

Howard Ungerleider: The Chinese which? I didn't hear. The Chinese, what?

PJ Juvekar: Chinese siloxane market.

Howard Ungerleider: Yeah. I mean I mentioned and I think an answer to one of the earlier questions, so we hadn't yet seen through the third quarter a lot of movement and siloxane's price, although we had seen movement in polyethylene pricing. We had seen movement in polyurethane and isocyanates pricing. We are now starting in the fourth quarter. Really, October and November we started to see siloxanes moving up, and I think that's a combination of continued economic strength in China and also some supply issues. You've got a combination of things, but we're starting to see that strength, and that should be positive as we end the year for silicones, and certainly it foreshadows a good 2021, or an improving 2021 relative to a pretty tough 2020 for our silicone business.

PJ Juvekar: Right, and the next question is on Sadara. Interesting question. Does declining Sadara in 2020 mean in 2021, there is no need to contribute cash?

Howard Ungerleider: The short answer is yes, but let me expand on that just to make sure that folks understand it. Sadara's performance this year actually is going to be better in 2020 than 2019. When you think about it, there's not that many players in the

chemical industry that can say they're going to have a better earnings 2020 given COVID than they had at 2019, and Sadara is one of them. Through the third quarter, they were up $100 million. They improved $100 million result third quarter year to date versus a year ago. The 350 million cash that's required this year from Dow is to go towards Sadara's debt service because of the project financing, right?

Assuming which I assume that is my base case, that's something that we're working on, assuming we get that reprofiling done by the end of the year, there will not be any required cash going from Dow into Sadara for any reason, debt service or otherwise. Sadara will be able to stand on its own as long as we get that reprofiling agreement finalized next year, which is the plan.

PJ Juvekar: Right. In terms of the assets that were non-revenue producing and recently sold, I think they're talking about marine and rail terminals, what can you tell us about the contract that buyers accepted? From their perspective, was that like a sale lease back?

Howard Ungerleider: Definitely not a sale lease back. If you think about all the portfolio work that we've done, we're in these assets which really are today value parks. You've got Dow and many other public companies and some private companies that are on those sites. The compelling thing for Dow was selling those assets, those infrastructure assets to people that are experts in marine, experts in terminals, and experts in rail infrastructure. That is their business. They're going to be able to invest in those businesses and provide us with a long-term cost that's equal to what we were doing today and over the next several years, we'll actually be able to lower our costs. That's what was in it for Dow.

What was in it from our counterparties was really the ability to grow those assets and get a good return on that investment, because they can grow with Dow, they can grow with all the other counterparties that are on those sites. When you think about the US Gulf Coast, when you think about marine, Freeport Texas is the only other deepwater port anywhere close to the Houston Ship Channel, and doesn't have nearly the complexities of the Houston Ship Channel, which today is landlocked. That's a great opportunity to invest in a marine infrastructure to be able to bring in both chemical and frankly non-chemical related capabilities into the US Gulf Coast.

PJ Juvekar: Great. Then the next question is on pension liability, which you answered. Good to hear that Sadara debt reprofiling is progressing. It sounds like you'll hit the goal to get it done by end of the year. If that's the case, is there a scenario that some recourse to Dow will still remain, even after reprofiling?

Howard Ungerleider: Look, a short answer to that question PJ is yes, I really don't want to go into a lot of details on that, until out of respect for the negotiation that's ongoing, but what I would say is you should think about our recourse as being meaningfully lower once the reprofiling gets completed. That's the mindset and I would say

that's representative of the agreement and principle that we have with the export credit agencies already today. We're working to finalize that with the commercial lenders and the sukuk investors which is the work that we have left to do to get that buttoned up hopefully before the end of the year.

PJ Juvekar: I'm just asking my follow-up on that. Why wouldn't you get the recourse down to pure joint venture? Like no resource back...

Howard Ungerleider: I'm sorry, say that question again. Why wouldn't we?

PJ Juvekar: Why wouldn't you negotiate that so that there is no recourse back to Dow?

Howard Ungerleider: Well, I mean it's a matter of a negotiation PJ, right? I mean we had as you know a pretty significant recourse that was a requirement of the project financing. That's something that was important to the lenders, but also something that's important to Dow is to end to Saudi Aramco to reduce our exposure over the next several years. Like anything in life PJ, it was a negotiation and it's still not a 100% complete like I talked about, but that's where we landed with the ECAs, which is the biggest portion of the debt.

PJ Juvekar: Yeah. The next question, I think you answered it. How should we think about capital allocation priorities for 2021 and beyond? I think you answered that.

Howard Ungerleider: Yup, I did answer it, but I mean just to repeat, safely and reliably operating our assets number one priority. Number two priority, the dividend which is an industry leading dividend. Number three, a combination of a little bit of additional deleveraging and high-return, low-risk CapEx organic projects that are brownfield. Those are the top priorities from a capital allocation standpoint.

PJ Juvekar: Great. Now the next question is given the low interest rate, would the company issue debt to address the balance sheet pension liability? Would you issue debt to pay off pension liability?

Howard Ungerleider: Yeah. Look, with regard to the pension liabilities and just liability in general, we're always going to look and think about the economics in the long term, right? Overall from a financial debt standpoint, I'd like to continue to deleverage. Obviously, the pension liability is a long-term liability and we'll look to continue to optimize that liability over time. It doesn't take a significant amount of discount rate movement to really significantly improve that. We have put voluntary contributions into the pension in the past. I would look to do that as well and if it's an option to raise debt to potentially do that if the economics were right, that would be something we absolutely would look at PJ.

No specific plans today. Like I said, we've got 300 million in cash going into pension in 2020 and an expectation of another 300 million from a mandatory standpoint next year. Then we'll take a look at the economics and we'll make the most value creating decision we can.

PJ Juvekar: Great. Almost down to last question. Dow's R and D expenses are much higher than LYB and other commodity chemical companies, why the difference and is there a plan to reduce R and D expenses? What is the impact of reduced R and D expenses on future growth and in which areas?

Howard Ungerleider: Yeah. Look, I would just say this. If you go and look and we've posted on our website dow.com, if you look at our benchmarking results, whether it's the third quarter, whether it's been every quarter since spin, our portfolio continues to be a leading portfolio and we're benchmarking in the P and SP area best in class. Why do we spend what we spend on R and D? It's because we get about a thousand basis points more margin on patent advantage sales and non-patent advantage sales. We've got a functional polymers area, which continues to be differentiated versus the competition. When you think about our coal monomer, you think about our catalyst, you think about our unique process.

That combined with some research and development really allows us to continue to maintain that differentiation in the eyes of our customers, and we get paid for that value. That's why we're spending about $800 million a year on R and D. We get a good return on that investment. I can assure you every quarter, we benchmark that and we measure that. If you just look at our return to polyolefins on a cent per pound basis, actually through 2020, we've actually expanded our lead from a differentiation perspective. I'll put our portfolio and our team up against any player in the industry.

PJ Juvekar: Great. That's the end of all the questions that came in and we are almost-

Howard Ungerleider: All right PJ.

PJ Juvekar: ... out of our time. Howard, thank you again for your time, really appreciate all your comments and all the answers, so thanks and have a good holiday season.

Howard Ungerleider: All right, thanks PJ. Thanks to you and thanks for everybody out there who's investing in Dow. Appreciate the ownership.

PJ Juvekar: Okay, thank you.