DOW

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Bob Koort: Good morning, everybody. This is Bob Koort at Goldman Sachs. I run the U.S. Equity Research effort on the chemical space, and pleased this morning to be joined by Howard Ungerleider, who's the president and CFO at Dow. As is protocol for this conference, we're going to be doing this as a chat, where myself and Dylan Campbell, who covers Dow with me here at Goldman, are going to ask Howard questions. We would strongly encourage that you could ask your own questions. If you look on the web portal there, there's a place to submit questions via a box, a text box. You lob those in, and then we'd be happy to ask those on your behalf of Howard.

So, without further ado, let me turn it over to Howard Ungerleider for some initial remarks, and then we'll get into the Q&A. Howard?

Howard Ungerleider: Thanks for having us, Bob, and good morning to you. Good morning, Dylan. Good morning to everybody out there who has joined us.

First of all, you know, let me just say on behalf of the Dow team, that I hope everyone listening in and your families are all safe and healthy. We continue to be inspired by how the global community, certainly our essentially industry, first responders, and those on the front lines at Dow have all stepped up through this unique time that we're all experiencing. And for any of those of you who are on the front lines and listening in, I just want to say thank you from the bottom of my heart for what you're doing.

You know, I would say, turning to our topic today, I'd like to just begin with a brief summary of our first quarter. Our results exceeded Wall Street expectations. We did clearly see divergent demand patterns in the quarter. Consumer staples, things like food packaging, health and hygiene, and cleaning materials showed strong demand, while anything really touching durable goods, particularly automotive and appliances, were soft. We delivered strong cash flow again this quarter, with cash flow from operations and free cash flow both up year over year, despite the lower earnings.

Our extensive liquidity and our improved liability profile were also highlights. At the end of the quarter, our total cash and available committed liquidity was approximately $12 billion, including $3.6 billion of cash on hand. And as a result of the liability actions we

accomplished since spin, we have no significant long-term debt maturities due for more than three years.

On the call, we also shared the proactive measures we're taking, totaling more than $1 billion of interventions, reducing CapEx by $750 million year-on-year, further trimming our operating expenses by another $350 million, releasing $500 million from working capital, and idling a few of our assets to balance production with demand. You know, those actions will further enhance our financial position through the current market conditions that we're experiencing, and certainly will turn into tailwinds as we run through the rest of the year.

You know, in the second quarter, as we highlighted, we anticipate, clearly, global demand softness from lower economic activity, and that will impact our results. The modeling guidance we provided offered our best estimates for the quarter in light of prevalent market uncertainty and, certainly, the low visibility that we're still dealing with. We know it's going to take some time for consumers to reengage, but already this month, we're seeing economies make plans to reopen, with industries like automotive and construction beginning that process even this week. As this trend of a gradual and sustainable reopening of economies continues through the second half of this quarter, we expect recovery will begin to take hold as the year progresses.

And, Bob, with that, I'll throw it back over to you, and let's jump into the Q&A.

Bob Koort: Terrific. You know, you guys have a pretty sizeable effort in Asia, Howard. I'm wondering, what have you seen in China, as they started to reopen again, and how do you think about applying those cues to the Western markets?

Howard Ungerleider: Yeah, I mean, look, what we've seen is in line with the modeling guidance we provided for the quarter, Bob. And what I would say is this: that, you know, certainly, Q1 was the big headwind for us in China. So, China's demand, if you think about a typical -- a typical Q1, inclusive of a lunar New Year, our demand might sequentially drop by about 10 percent from Q4 to Q1 on a typical year. We saw a 25 percent sequential reduction in China from Q4 to Q1, so 15 percent worse demand from a volume standpoint.

And, you know, it's still early in the second quarter. We're not quite halfway through May. What we saw coming out, late in the quarter, late in Q1 and early in Q1, is a significant rebound in China for about two or three weeks, followed by about two weeks of softer demand. And now, what we've been seeing for the last couple of weeks is demand improving again. So, you know, I think there was a little bit of pent-up demand, you know, as a result of the big lockdown and the shut-ins that everybody was experiencing in China. That pent-up demand kind of came back in a hurry a couple weeks, petered out a little bit, but now we're on an upward trajectory.

And if you look at, you know, look, if you look at our demand or you look at any of the industrial statistics of electricity, even traffic in the urban areas, retail sales, things are looking up. I mean, I would say in China, the only things that you still really see that are still below 80 percent or so in terms of what it used to be were really anything touching travel and leisure and mass transit. So, whether it's airplane travel, whether it's mass transit, you know, bus or train, movie theaters, anything where people are needing to

congregate are still probably in the 60 percent range or lower. But everything else, even in the durable good area in China, is really starting to move up. Clearly, the consumer staples are moving up at a faster rate than consumer durables.

Dylan Campbell: Hey, Howard, this is Dylan on Bob's team. Got a question here from an investor, just asking about how you would characterize I guess the inventory situation in China, on the back of that demand commentary?

Howard Ungerleider: You know, we've seen -- good morning, Dylan. Is that question specific to China, or around the world?

Dylan Campbell: Yes, China. China, sorry.

Howard Ungerleider: Yeah, look, I think inventories are starting to come off, you know, and we've seen that really every week. And you can see, you know, now you've got, especially on the ethylene chain, you've got a cost push happening now. We really never saw a big demand drop, for example, in polyethylene. It was on the margin, but really, overall, it was more flat versus a year ago, which is certainly down versus a typical China, which is usually growing at, you know, two to three times their GDP. But, now that we've come off of that, demand continues to return and costs are higher, and so you're starting to see continued pull and, actually, prices moving up as a result.

Bob Koort: Howard, it's clearly rough times when Dow is yielding almost 9 percent on its dividend, and it does seem a lot of clients have questions around sustainability, commitment to the dividend, ability to pay it in these kind of environments. Would you just walk through the, you know, your approach towards the dividend, commitment to that dividend, and maybe the puts and takes around cash this year and into next year to cover that dividend?

Howard Ungerleider: Yeah, I mean, I think under periods of economic distress, whether it's what we're dealing with now or '08-09 or '01-02, clearly, cash is king, or cash is queen, depending on your perspective. And, you know, I'm very proud of the Dow team for the amount of focus on cash. This was a key difference of, I would say, the old Dow into the new Dow, as we spun out. It's something that we've been taking about, really since 2018.

We now have every single -- every single business leader around the world who has a P&L also has a balance sheet and has a cash flow statement that adds up to the enterprise statement that Jim and I manage together. And so, you know, ever since spin, so beginning with the second quarter of last year, every quarter so far, inclusive of the first quarter, we've delivered higher cash from ops and higher free cash flow versus the same quarter a year ago, despite the macroeconomic environment, the margin compression that we saw last year, and certainly even in the first quarter, when we saw, you know, the big pandemic demand and the beginning of the oil price compression that we saw in the month of March.

And so, when I think about the dividend, look, the dividend, from a management standpoint, as well as our board, it is out top, it is our number one financial priority, so the commitment could not be higher. You know, when we look at the cash flows, and let's just look this year at the bearish -- the most bearish case that's out there on the Street right now in terms of the sell side, I think the lowest number is around $5.1 or $5.2 (ph)

on an EBITDA basis. If you subtract out interest and taxes, you know, you're looking at about $4 billion net. We lowered our CapEx spending to $1.25 billion. We've got a $500 million commitment on Sadara, and we've got a $2.1 billion dividend. So, even at that -- the most bearish sell-side estimate for this year, you've got more than enough cash from operations to cover the dividend.

But you've got other things and other levers that we are pulling, and we will continue to pull, on the nonoperational side. So, in the first quarter, we received a $250 million tax refund from the Canadian government as a result of the first Nova judgement that we had, so that's a nonoperational cash flow that's on top of those numbers. If you really are in that $5 billion EBITDA range, you should see a significant release of cash from working capital.

We are and have been working on structural improvements on working capital, to the tune of about $300 million a year. But, you know, if you're really at the $5 billion level, and if you believe that hydrocarbon values are going to stay low -- that's not necessarily my base case, but if you have that point of view and you're that bearish, then you will release between $500 million of cash from working capital, and as much as $1.5 billion. And if you go back and model our portfolio over the last many economic cycles that typically coincide with a petrochemical downcycle, that's the kind of release of cash you've got from working capital.

On top of that, we've got the second Nova judgement that we're seeking to get in the court. I don't know whether that happens this year or next year, but that's several hundred million dollars that we expect to receive from the second judgement on the top-up on the first judgement from 2012 to 2018. And then we've got the Olin payment that is expected to come due at the very end of this year. So, you know -- and there are other things that we're working on that we haven't talked publicly about yet, and as we -- you know, as we get them more concrete, we will certainly share. But, you know, there are hundreds of millions of dollars of additional nonoperating cash flows that the Dow team is focused on, you know, to weather this storm.

Dylan Campbell: Hey, Howard, this is Dylan again. I guess, following up on that, two areas that investors question with regard to the cash flows is your pension and the risk with Sadara. Can you talk a little bit about kind of the risks in terms of your cash flow specifically and how you're kind of managing those risks with the pension in terms of when you'll actually expect a potential true-up in this lower interest rate environment, and then on Sadara, how your negotiations are going currently, with both the lenders and the partners?

Howard Ungerleider: Yeah, so thanks, Dylan. Look, on the pension first, we're in a very good position on the pension. You know, we do have our pension underfunding right now is about $8 billion, because of the lower discount rate environment that you mentioned in the question. But because we've been putting so much voluntary payments into our pension the last five years as we were setting up the capital structure for spin. Look, our mandatory requirements this year is about $250 to $300 million of cash. That's about flat with last year. And you know, obviously, we marked the pension to market at the end of every year. But I would say, if it was marked today, our cash need next year, and most likely in 2022, would be in that $300 million range. So, for the next three years, 2020, '21, and '22, most likely, it's not going to be a significant cash drain.

That number can step up by $400 or $500 million in 2023 and 2024, potentially, but we're actively engaged with many other companies and trade associations, and looking to get the pension corridor smoothing that was put in place during the financial crisis in '08-09. Those corridors are set to expire, but obviously, with the very low discount rate that we've all experienced, I think there is some, you know, certainly desire and political will in Washington to help all companies through that process and just continue with some of those corridors. If that happens, that will reduce our cash need in those out years pretty significantly.

So, we're in a good position on the pension. And obviously, I mean, the discount rate -- lower discount rate hurts, but the spreads widened. And don't -- you know, don't underestimate that the widening of the spreads definitely will be a tailwind to offset most, if not potentially all, of the headwinds, depending on where the discount rate and the spreads are at the end of the year.

Look, on Sadara, you know, I would say Sadara continues to operate very well, right? So, it's 26 unit operations and world-scale assets. You know, before the pandemic, they were sold out. There was good demand, and I can circle back to the demand comment in a minute. But, you know, fundamentally, it's got a capitalization problem, so it's got too much leverage. And we're working, you know, Dow and Saudi Aramco and Sadara are working together with the lenders to reprofile that debt. In March, we did achieve the last substantive step to achieve project completion, and that was the rail agreement, the final logistics agreement that Sadara had to sign with the Saudi rail authority, so that's done, so we have now passed that last substantive step.

We're working on the administrative steps. In a normal environment, that would probably take a month. You know, I would say, based on where we are with the pandemic and a lot of government offices closed or working reduced hours, we're probably looking at getting that done by the end of the second quarter, all the remaining administrative steps to achieve PCD (ph).

But we're not waiting. We've begun the process with the lenders. Once we finalized that rail agreement, we've now begun the process. So, we've reviewed presentations; we've sent the draft terms sheet out to the lending syndicate; we expect initial feedback before our second quarter earnings call, so on the second quarter earnings call, I'll have more to say, based on the feedback that we've got. And I would say most likely, certainly our target is to get that negotiation done by the end of the year.

And that's why I say, look, for modeling purposes, I think it's reasonable for you to assume no change in cash outflow for Dow in 2020 versus 2019, which was a $500 million use of cash, which is really just to pay the -- majority is to pay the principal drawdown. Because, remember, it was project financed, and so what we need to do with this reprofiling is reprofile the debt, work on looking at the tenders and/or looking at the amortization tables, but really, turn it from project debt to company long-term debt. And so, that's the goal, and I would say we're on track to get that done by the end of the year.

And I would say that Jim and I are working on that together, actually, with the CEO and the CFO of Saudi Aramco. We're talking about once a month, you know, the four of us,

on a regular drumbeat, just to keep the teams focused and delivering on that (inaudible).

Bob Koort: And, Howard, on the Sadara, the range of outcomes then into 2021, is the worst case having to pay down that principal again for another $500 million, and the best case is no cash leakage? Or how -- can you give us some guardrails on what outcomes might occur for next year there?

Howard Ungerleider: Yeah, I mean, I think -- yeah, I think if you want to be a real bear and say there's no way they can get the reprofiling done -- which is not my view, Bob -- but if you want to take that, then I think just assuming a $500 million use of cash from Dow into Sadara to continue to pay off the project financing principal, which basically all comes due over the course of the next 10 years, it varies a little bit year to year, but basically, it'd be about a $500 million draw every year, until we could get that reprofiling done. But, you know, Bob, that is not my base case.

Bob Koort: And so, if it does get reprofiled, then that $500 goes away, but there's other interest payment? Or, how do we think about the net of it, if you resolve things favorably?

Howard Ungerleider: Look, it's a negotiation. I certainly don't want to negotiate with the lenders on this webcast. But what I would say is, look, our goal and what we put forward in the terms sheet is to make sure that Sadara is cash flow self-sufficient and can weather, you know, the next several years.

Bob Koort: Got you. Let's turn over to --

Howard Ungerleider: (inaudible) Dow or Saudi Aramco.

Bob Koort: Got you. Turning to the businesses, and maybe start in the polyolefins world, polyethylene particularly for you guys. Clearly, the COVID crisis has created some demand pressures -- and some opportunities, I guess. But, you know, it was amplified by the oil crash. Can you talk a little bit -- you guys have a very broad view? Obviously, you've got ethane crackers in South America, Canada, U.S., but you've got naphtha-based cracking, not only here, but abroad as well. Talk about the dynamics and how the competitive environment has shifted, what you guys have done in light of this correction in oil prices and compression in maybe that NGL to naphtha advantage.

Howard Ungerleider: Yeah, you know, and look, I think I would say this, Bob. You know, we don't -- certainly, nobody likes the state of the economy around the world and what we're all dealing with related to the pandemic. But I would say this kind of an environment actually plays to Dow's strength, Dow's portfolio, our feedstock flexibility, our geographic presence. So, yes, we have a significant amount of capacity in the U.S. Gulf Coast, but we also have capacity in Alberta, which is gas-based, as you know. We have capacity in Argentina, which gas-based, with shale in the Vaca Muerta. We have a significant feedstock flex in the U.S. Gulf Coast. We can crack two to three times the amount of naphtha or propane than the industry without us.

In Europe, we've invested significantly over the last couple of decades on our ability to either crack naphtha or crack as much as 65 percent LPGs. Obviously, if you believe that we're going to be in this low oil environment and the cost curve is flat, then we're going

to make a lot more money in Europe, we're going to make a lot more money in Thailand with the assets which are naphtha-based. And then, back to the Sadara point, it's a mixed-feed cracker, so there's a big naphtha component there. And if you really believe that naphtha is going to be advantaged over ethane for a long period of time, then we'll make more money in Sadara as well.

I also think the applications that we're in tend to be a lot more tilted to the consumable area, whether it's packaging, food packaging, whether it's hygiene and medical applications, they're consumable applications for a big chunk of our demand. And then you think about our catalyst technology, our process technology, our unique coal monomer capability to utilize octene. You know, we put out a benchmark in 2018, and then we updated that benchmark again. I think we put the slides in the first quarter earnings deck, which everybody should have access to. So, margins, certainly in '19, are lower than they were in '18, but we actually widened our relative advantage versus the next two players on the cost curve, so I think it plays to our strength.

Bob Koort: And can you talk about, I mean, you do have flexibility. Are these, the shifting feedstocks, something that you can take advantage of and optimize for, or as everyone shifts one way or the other, does it remove that opportunity? Are there storage and logistics issues? Have you cracked heaver in finding places to put those byproducts? Can you just talk about sort of the ability to flex quickly or not, by yourselves and the industry?

Howard Ungerleider: Yeah, I would say we're not immune to the issues that you read about you certainly, I'm sure, heard some of our other peers deal with. But, certainly, we've been investing in feedstock flexibility for a long time. You know, and when some people talk about feedstock flexibility, they say they've got two furnaces that can crack naphtha, they've got three furnaces that can crack ethane. When we talk about feedstock flexibility, it is in-furnace feedstock flexibility, where we run the model -- look, we can run the model daily. We typically only make the changes about once a week, unless there's a big dislocation that encourages and is economically beneficial.

But relative -- you know, when you look at the cost curve right now, you would say you want to crack as much naphtha as you can. But, to your point, a lot of -- when you crack naphtha, as you know, a lot of the byproducts -- or coproducts, depending on your perspective -- go into durable goods. You know, the C4s and things like that will go into tires. They'll go into other automotive and transportation infrastructure applications. And the demand there, because of the pandemic, is so low, that on a theoretical basis, naphtha looks like the cheapest crack. But, in reality, you know, ethane and propane are kind of battling for lead position, still.

You know, as the demand comes back, that probably improves. You know, and if oil stays low, naphtha probably gets a little bit better. Outthought, look, you look at demand right now, gasoline demand is starting to jump up. Oil this morning touched $30, you know, when it hasn't touched $30 for about 30 days. You know, it's up about 25 or 30 percent just in the last couple of -- you know, 5, 10 days, something like that, so you're starting to see the world come back. And, you know, I do think jet fuel demand will lag, but it appears that gasoline demand is going to strengthen. And, you know, look, if people in the large metro areas have an opportunity to fly, you know, from Boston to

New York or D.C., will they fly, or will they get in the car and drive? And, you know, my gut says, at least for the first few months, you're going to see a lot more gasoline demand relative to jet fuel demand.

But, you know, back to your C4 question, we've got a lot of flexibility, I would say more than most, and the ability to actually handle the C4s on our own, and that's something that we purpose built.

Dylan Campbell: And looking at the U.S., and specifically I think last year (inaudible) point, or it's about 40 percent of the U.S. polyethylene was exported into the global market. Following the decline in oil prices and a flattening of the global cost there, how has that changed the global trading dynamic? And I guess a related investor question here is, how has the competitive response from Chinese chem producers changed, due to the lower oil-price environment?

Howard Ungerleider: Yeah, I mean, look, I think it's certainly -- what we saw is a reduction of exports to China in the first quarter, as an industry, but that was really because of the China demand and their lockdown. What we've seen since they have restarted their economy is actually demand -- they've been calling even more on export, and export shipments are -- they're running up against the logistics bottleneck versus anything other than a demand issue or anything like that. So, you know, I'm probably more bullish that, as long as we see economic activity continue to strengthen in China and around the rest of the world as we come out of the kind of stay-at-home orders and/or the lockdowns, depending on what country you're in around the world, that really shouldn't be a big issue.

I would say, from a Dow perspective, look, we did not build our Gulf Coast assets for export outside of the Americas. So, really, for us, in the long term, if you view is the shale gas advantage is gone -- which, by the way, is not our view. I mean, I think when you look at past oil shocks, about 80 percent of the time when you've had an oil shock like we've had, within 12 months, the oil price is up about 40 percent from the shock. And so, you know, we're already up 30, and I would say you're looking at -- you know, you look out a forward curve right now, you know, you've got to go out two or three years on the forward curve, but you're in the mid-40s already. And so, and if you think about where different oil producers need the oil price, from a budget standpoint, that is probably in that kind of a range.

So, there's going to be demand growth that will draw price up, and then there's going to be budgetary pressure that will also draw either -- if demand doesn't grow, you're likely to see supply go down. And so, I just fundamentally don't believe today that the shale gas advantage is gone and gone forever. Certainly, the cost curve is flatter today than it's been. But, look, if you just look at the oil-to-gas ratio, you're back to 16 or 17, maybe even 18 as of this morning.

So, I mean, they talk about traditionally, if you're at 6 or below, you're at parity. So, you're not at parity. You're still advantaged. The relative advantage is lower than it's been. But, you know, I would also say that if you're in a low-demand environment, if you believe that the pandemic is going to be a much slower return -- which certainly, some folks believe -- then I would point you to look -- you've got to look at what capacities around the world are vulnerable, either because they're CTO or MTO-based, or they're

small, or they're old, or they're not connected to the feedstock and they're in an import situation. Because what we saw after the '08-09 crisis is about 4 million metric tons of capacity came out of the supply, 2 million came out permanently -- meaning were not mothballed, but were actually demolished -- 2 million metric tons was mothballed and idled and then came back between 2010 and 2011.

When we do that same analysis on the vulnerable assets today, you know, our list is about a little bit north of 20 million metric tons, a little bit above 10 percent of the global capacity. And CTO and MTO alone is at -- is about 6.5 million tons, and that's -- you know, if your oil price is not above $50 a barrel, it gets very hard for those CTO and MTO assets to run. So, if you don't shut anything else down, if you believe in a low oil environment, the likelihood that those CTO and MTO assets either don't run or run at reduced rates is really high.

Bob Koort: Howard, do you think -- you know, one anxiety point for clients on the polyethylene markets have been a wave of capacity outside the U.S., that we've sort of gotten past the first wave here, but maybe in China in particular, there was another wave coming. Do you think some of those expansions are vulnerable as well? Have you guys adjusted what you see on the supply side? Has that gotten stretched out?

Howard Ungerleider: Yeah, I mean, look, there's a typical rule of thumb that on capacity additions or announcements, half the stuff that gets announced gets built, and the half that gets built takes longer. And we've seen that, you know, in the Middle East wave. We've seen that in the U.S. Gulf Coast wave that we're just going through. I believe we will see that in the China wave. So, yes, some of the capacity will get built, no doubt, but I do think it will take longer.

I mean, certainly, you know, even the announcements that you've seen with some of the capacity that's got an incentive to get finished, just because of the pandemic and getting contractors on site, you've seen many peers announce their inability either to get contractors or to make sure that everybody's doing the work safely. You've really had to slow down the construction and/or pay more, so I think you're going to continue to see that.

So, yeah, there will be a next wave of capacity that gets built, but I actually think in some ways, a macroeconomic pause is typically good from the cycle perspective. Because what happens is, look, when everything is good, people start announcing and building. When things turn south, everybody's going to pull from the same playbook, which is significant reduction of CapEx. You know, I mean, we've certainly done our fair share. The oil majors, each one of the oil majors has announced their fair share, so you're seeing that happen. And, you know, what that does -- and, Bob, you're no stranger to this. You know. You've experienced this as well as I have. That basically creates the next macroeconomic and demand up cycle.

Bob Koort: (inaudible). We only have a couple minutes, but maybe just real quickly, in polyurethanes and acrylics, what are you guys seeing there in terms of margin pressures and the path forward, and what are you seeing in terms of any market response in those segments, given the tough conditions out there at the moment?

Howard Ungerleider: Yeah, I think, look, on isocyanates, I would say you look at monomeric MDI, which has the additional distillation step, and that generally has been commanding a premium over PMDI. I would say all polyurethane chemistry really is exposed in a significant way, certainly from our portfolio, to the more consumer durables -- automotive, furniture and bedding, appliances -- and this has really been hit the hardest, from a Dow perspective, on demand related to the pandemic.

As the economy starts to improve, I mean, you know, I'm sitting here in Michigan. You know, the automotive companies, the big three, have started to return to work as of Monday, and then the target is, starting next week, they'll start to ramp production again. So, we should start to see, as the quarter progresses and then certainly into the back half of the year, we'll start to see some demand pull.

But, certainly, isocyanates are at a trough -- at trough or maybe even below normal or typical trough margin, so there's not much lower they can possibly go. You're at the cash break-even point.

You know, on acrylics, it's kind of a tail of two worlds. You've got a DIY segment, which actually, through the pandemic, as long as countries were not limiting the sales because of the essential designation, we actually saw good DIY demand. In those places where they were not deemed essential, obviously, you couldn't buy the paint. And then, in the infrastructure segment, that you've seen in the contractor professional segment, where work was not allowed, you've seen that drop off, and my guess is, as we reopen, we'll start to see that improve as well.

Bob Koort: Terrific. Unfortunately, we're out of time there, but really appreciate the help, Howard. And, everybody, have a great day.

Howard Ungerleider: All right, thanks, Bob; thanks, Dylan. Take care.