Dow Presents at Bernstein 37th Annual Strategic Decisions Conference



Jean Ann Salisbury, Bernstein
Jim Fitterling, Dow Chairman & CEO

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Jean Ann Salisbury: Hi, good morning. I am joined here by Jim Fitterling, CEO of Dow Chemical. We will be allowing him to make some comments today and then we'll move into Q&A. I just want to remind everyone that we use a platform called Pigeonhole, where you can submit your own questions and then vote on questions to make it more interactive. As a friendly reminder, this event is open to the public. Please refer to the cautionary and forward-looking statements and the materials Dow will post. With that, I will turn it over to Jim.

Jim Fitterling: Hey, good morning, Jean Ann. We appreciate the opportunity to be with you today. Before we jump into the discussion, let me begin with a brief update on the quarter. In our first-quarter earnings call, we outlined our expectation for continued economic recovery and demand strength across many of the end markets that we serve. Including packaging, electronics, mobility, architectural coatings, and consumer durables and industry trends have been supportive. In April, US vehicle sales reached their highest level since July 2005. Housing starts continue to be strong and we're 60% higher than a year ago, still tracking at their highest level in over a decade.

Jim Fitterling: US manufacturing, PMI indicated overall economic expansion for the 11th consecutive month. While recovery has begun in many sectors, most are far from reaching pre-pandemic levels. There continues to be a significant opportunity for additional upside, most notably, in the service, travel, and industrial sectors. Aa their recovery accelerates, oil demand will take another leg up to at least, pre-pandemic levels. A release of COVID lock downs in the coming months will be a catalyst to unleash service sector spend. While travel recovery is beginning to improve, total domestic travel spend in March, was still 30% below March 2019 levels according to the US Travel Association.

Jim Fitterling: Business travel and international travel will begin to return, and that will provide yet another catalyst for demand. Despite significant improvement from the pandemic lows, the US industrial production index and industrial capacity utilization both remain below pre-pandemic levels. As these sectors continue to rally in the coming months, we anticipate additional, sustainable upside in the global economy.

Jim Fitterling: All in all, strong demand, low inventories and elevated raw material costs continue to support margin momentum across our value chains. We're still projecting top and bottom line growth, sequentially in all operating segments in the second-quarter. In fact, today we see additional EBITDA upside of approximately $400 to $500 million versus the current first call consensus for the second-quarter. Looking into the second half of the year, we continue to see demand strength, coupled with constrained inventory levels, as the industry manages the backlog of customer orders and supply pressures from the impact of winter storm Uri.

Jim Fitterling: Despite US polyethylene industry supply increasing significantly since 2017 to support growth and the growing export market, the latest ACC Report shows the 2021 year-to-date industry average days, demand of inventory, remains below the 2017 average. Currently, both ethylene and polyethylene margins have expanded and robust packaging demand strengthened by positive outlooks in retail and e-commerce end markets combined with unplanned industry outages, continues to support pricing strength, despite some less bullish consultant views.

Jim Fitterling: The recent oil price increase driven by continued global reopening, incentivizes more drilling and provides more associated gas, further supporting the integrated margins. We expect polyethylene margins to remain strong given it's 1.3 to 1.5 times GDP demand growth that is projected to outpace supply additions in the near term, after accounting for typical project delays and cancellations. Across the board, economic indicators remain positive pointing to continued global economic growth, strong supply demand fundamentals, and robust chain margins in our key end-markets.

Jim Fitterling: Driven in part by government stimulus, globally, consumers have accumulated more than $5 trillion in savings and US retail sales remain elevated up more than 50% over April, a year ago. With rapidly improved consumer sentiment and consumption and a sharp increase in spending is expected in the coming months. Business investment is also up with CapEx spending of the S&P 500 expected to rise 7% this year. IMF is projecting the strongest global GDP growth in four decades, at 6%.

Jim Fitterling: Against this positive backdrop, Dow is well positioned to continue creating value for our owners and stakeholders by focusing our resources and investing in assets and capabilities to address faster growing markets with differentiated and sustainable solutions. We were early in the cycle to bring up more than 3 billion pounds of polyethylene and 4 billion pounds of ethylene, which allowed us to maintain our leading market position and continue satisfying robust packaging demand with low capital of intensity expansions in the near term.

Jim Fitterling: Next up is more than 1.5 billion in near term earnings to catalysts that will accelerate this value creation. During our earnings call in April, we outlined our additional incremental expansions and key value chains that are expected to generate approximately 1 billion of accretive earnings. These lower risk, higher

return and faster payback CapEx projects, include our Canada and Thailand expansions, the bottle-necking projects in all three operating segments, as well as incremental investments across the US Gulf Coast, Europe and China.

Jim Fitterling: Many of these projects convert captive merchant monomer and intermediate products into higher margin formulated solutions. Our investments in digitalization will also accelerate growth and expand our competitive advantage providing a benefit of greater than 300 million accretive creative annual EBITDA. Our previously announced restructuring initiatives will deliver additional run rate savings of approximately 300 million. The completion of Sadara's debt re-profiling and improved cost position, also enables increased equity earnings potential for Dow and enhanced financial flexibility, including a $350 million cash tailwind in 2021, year-over-year.

Jim Fitterling: We continue to enhance our competitiveness by reducing our carbon footprint, developing circular solutions and delivering value creation with our recent, best donor mindset actions. Our key to deliver further earnings' upside, is Dow's differentiated portfolio that enables us to capture demand growth and higher margins across the broad set of end-markets, value chains and geographies. For example, our higher margins functional polymers and polyurethane systems businesses serve high growth downstream markets, such as mobility, infrastructure, construction, and durable goods.

Jim Fitterling: We have an expanded portfolio of sustainable surfactants, plus new investment in additional alkoxylation capacity targeting fast-growing pharma and crop defense sectors. While, only one-third of our consumer solutions business is tied to upstream merchant siloxanes, where near term supply and demand dynamics are constructive. Two thirds of our siloxanes are captive to downstream silicone's where our debottleneck investments are unlocking additional capacity, enabling us to capture higher margin growth in high-end personal care, commercial building, electronics and mobility end markets.

Jim Fitterling: Dow's innovative solutions also address some critical mega trends. In the mobility sector, electric vehicles use more Dow content than internal combustion engines. Approximately 50% more elastomers, acrylics and polyurethanes and three to four times more silicones. Our high value adhesives and packaging solutions support the rapidly growing e-commerce sector and Dow is widely recognized in our industry as an innovation leader. We were recently recognized as the first company to receive five gold Edison Awards in a single year for our products and applications such as electronics, 5G, foldable smartphone, and tablet displays, barrier coatings and battery materials for electric vehicles. We've won more Edison gold Awards cumulatively over the past decade than any other company.

Jim Fitterling: Across our portfolio, we provide more sustainable offerings to our customers and enable conversion to renewable energy, such as lower carbon energy solutions in gas treating, carbon capture and concentrated solar power. A full suite of elastomers for longer life and higher efficiency protective films for

photovoltaic solar applications, building an infrastructure offerings that enable reduced energy consumption and increased the viability of renewable energy options, and through value chain collaboration, we enable the transition to increase post-consumer recycled content in our products, as well as the design of fully recyclable packaging.

Jim Fitterling: Our partners ships with companies like Fuenix, Mura Technologies and Lucro Plastecycle are just a few recent examples that highlight the growing demand for these circular solutions. Supporting our downstream portfolio, our extensive geographic reach along with our advantaged feedstock positions around the world, coupled with our industry leading feedstock flexibility enables structurally lower costs and a relative, competitive advantage versus our peers.

Jim Fitterling: Finally, the financial discipline and best owner mindset actions we have taken since spin have established a strong foundation for Dow. Our annual benchmarking highlighted that over the past two years, we achieved top quartile cost structure and cash conversion, best in class net debt reduction and a top quartile dividend yield. Moving forward, we will continue to apply a disciplined and balanced approach to capital deployment. We'll keep CapEx within depreciation and amortization and continue to prioritize downstream, higher margin, faster payback growth investments with upstream investments to expand Dow's leading ESG profile while reducing costs.

Jim Fitterling: Our actions this year to deleverage gross debt by approximately $1 billion and reduce pension obligation by more than $2 billion are supporting our progress toward our economic cycle target of 2.5 to 3X on a ratings agency basis of debt to EBITDA. And we will continue to return approximately 65% of net income back to shareholders with approximately 45% primarily from our industry-leading dividend and the remainder from share buybacks. Altogether, considering Dow's near-term earnings catalyst, differentiated portfolio, financial discipline, competitive cost structure, and our balanced approach to capital allocation now is uniquely advantaged to continue delivering value for our owners for the foreseeable future. And with that Jean, I'll hand it back over to you to open up the question and answer session.

Jean Ann Salisbury: Great. Thank you, Jim. So I am Jean Ann Salisbury, I am the natural gas and midstream analyst at Bernstein. So I think, as a result, many of my prepared questions will be generalist in nature. I think that's okay because it's a generalist conference. But just as a reminder, anyone listening, if you have more specific questions that you would like to have asked please put them in at Pigeonhole. I see we've already gotten a few. Great. So if I could just start on a few about the polyethylene cycle. So first question coming from my world a little bit, U.S. A&Ps are maintaining capital discipline, and crew production has been flat since the downturn. Many believe that this may limit ethane and propane production going forward. Do you see a risk that your feedstock costs could move up to NAFTA parody if this continues?

Jim Fitterling: I don't think that's a real risk, Jean Ann. There are a lot of drilled but uncompleted wells in the U.S. and as the demand comes back, which I think the next leg up on demand is really going to be driven by jet fuel and the return to travel, that will quickly cover the supply needed and, of course, there'll be associated gas with that. And as you see right now, frack spreads on ethane are about a dollar and that's really a good margin in that part of the business and that's not a surprise. And I think we see ethane between 22 and 28 cents in the near term.

Jean Ann Salisbury: Great. Can you share your view on the current global supply-demand picture for polyethylene here?

Jim Fitterling: Yeah. The demand I think is the real story. Demand has been strong. And, in fact, you have to remember the demand volumes really stayed with us right through COVID. And I think that speaks to something that we've seen over several economic cycles back in 2001 and two, which was a big trough. 2007, eight, nine period we saw that polyethylene held up the best of anything in our portfolio. And I think that surprises people on the demand side. And then on the supply side, really projects have been delayed and have not come on at the pace that everybody thought. So we've absorbed all this capacity that's come on since 2017 and we're really not completely out of the pandemic around the world yet. I'd say the other thing is that the United States inventories are very, very low. And one of the things that you see right now is that the amount being export is even off. So the inventories are low with exports being down and as exports continue to increase that'll tighten things up even more.

Jean Ann Salisbury: Makes sense. And then some specific questions about supply and demand. There've been some COVID boosted plastic areas such as food packaging, PPE, et cetera. Do you see this staying when the pandemic is over or do you think you'll drop that but maybe gain some other business?

Jim Fitterling: I think it will stay. There could be some trade-off in business. I mean, when you think about travel and institutional use of packaging like big institutional food process, reopening of hotels, these kinds of things, we haven't seen that demand pull through. We saw everything shift over to more consumer-oriented sales. So we'll probably see institutional sales come back and maybe you'll see a little bit of consumer trend down. But I think as travel begins you're also going to see a step up in packaging related to people traveling around and that's been low. The other thing that I think will continue to help packaging is the amount of post-consumer recycled we're putting into products. There's a strong demand from users for that. And secondarily, just safety and security of the food supply and the medical needs that we're going to have going forward.

Jean Ann Salisbury: That makes sense. And then just building on that, are there areas that COVID plastics demand fell off over the past year such as personal care or industrial that might rebound the second half?

Jim Fitterling: The biggest area where they fell off was in functional polymers. Functional polymers going into things like products for tires and automobiles, which is starting to come back. Membranes for roofing for large commercial buildings or for home buildings. Membranes for applications in water treatment ponds and things like this, that's all slowed down. We're starting to see the construction part of that come back now. I think one of the things that's happening in construction markets is there's been a very hot property market for available homes and very low inventory so it's really driven home pricing up dramatically. And now as the spike in wood prices and construction materials prices comes off of that very peak values that you saw, some people that want to have a home are thinking about construction and you're seeing a big increase in single-family home starts. So I think you're going to see another wave of construction in the back half of the year as people start building new homes.

Jean Ann Salisbury: That's interesting. [inaudible]. Do the ethylene capacity additions coming out from Asia worry you?

Jim Fitterling: No. Asia is the fastest-growing market for polyethylene demand. And so I think they will still be an import region even with that those capacity additions. And, obviously, it just takes time to bring on those new big assets. Not everybody can bring them on and get them up to capacity like we were able to during the shale gas wave that came through here. So I'm not super concerned about that. I think we're going to continue to see strong demand for the downstream derivatives and there'll be times where things get tight from time to time. The high-cost producers, obviously, are going to be the NAFTA-based producers and I think oil is continuing to be constructive. We're at oil consumption now of about 95 million barrels. Pre-pandemic we were just over 100 million. If you add back aviation fuel and travel, you probably add about five million barrels a day back to that, you're within striking distance of pre-pandemic levels. And then I think you've still got pent-up consumer savings and you've got pent-up industrial demand growth.

Jean Ann Salisbury: Makes sense. I've gotten a few on Pigeonhole. Where do you think plastics chain operating rates are?

Jim Fitterling: Plastics derivative capacity operating rates are well into the 90s right now. We haven't seen these levels since the first quarter of ‘19. And I'd say back into the peak which was really around the 2017 timeframe. So I think they're going to stay there. Typically, there's more derivative capacity than ethylene capacity, but in this case, with plastics, you've really gotten more ethylene capacity right now than polyethylene. And so things are going to continue to be tight in that part.

Jean Ann Salisbury: And then another one from pigeonhole. Can you give any color into pricing for the second half of 2021 after a strong first quarter?

Jim Fitterling: Yeah. Hard to read. May was up five cents in North America. I think we see relatively stable pricing in Asia right now. May was a holiday month in China.

You had the first week of May out for holiday so that had some impact. And I think the strong pricing here has really reduced the amount of exports out of the U.S. So I imagine some arms will start to close. Both Asia will move up and probably Europe will move up and the U.S. will move down a little bit, but I think they'll start to gravitate into a more normal phase. One of the biggest challenges right now within polyethylene is depending on the grades of product that you make, there's some tightness in additives and raw materials like comonomers that go into that and so that also has a big impact. So you'll see certain products that are really tight within that overall broad category polyethylene.

Jean Ann Salisbury: Given the strong demand in packaging and consumer durables in 2020, how is the company addressing the risk of any potential pullbacks today if we were to start to see a slowdown?

Jim Fitterling: Well, we focus mainly on getting our cost structure right. So we did a lot of restructuring. We've always been paring back on competitive assets. You see the work that we've done on our debt profile to get our balance sheet in order. I think if we continue at these rates we'll be well within our net debt to EBITDA targets, maybe even below our target range, by the end of the year. That's a very positive sign. We weathered a really tough situation in the second quarter last year and were able to support the dividend and we've made cost improvements since then to really lower our break-even costs. So I feel good about our flexibility. We have good visibility to the market demand on a weekly basis. We have good, good feel for the order book. And as you can see, the team has been really good at making quick actions and doing the things we need to do to stay competitive.

Jean Ann Salisbury: Great. So switching gears a bit. Most people think of Dow and think of polyethylene. What other segments do you think should get more attention from investors and where do you see as having the most opportunity for Dow outside of polyethylene?

Jim Fitterling: We're the world leader in silicones production. Silicones are a very strong and sustainable product line that goes into a lot of high-value applications. More ubiquitous than polyethylene even. They're in more things that you touch every day than plastics are and they provide a really strong functionality for everything. Everything from building construction to consumer products that you use every day. Laundry detergents, et cetera. And so I think that's a strong growth area that's growing faster than plastics and …

Jim Fitterling: ... it's a lot of formulated solutions. Our industrial solutions business, we're a leader in alkoxylation technologies and they've made some huge breakthroughs in sustainable solvents, low VOC solvents, and also sustainable chemistry for applications like the textile industry. You see the recent launch with Ralph Lauren of a product called ECOFAST Pure, some big partnerships that we've got in the pharma, and home care space. So I think you're going to see continued growth there. We just brought up a new plant in January of this year. We've got another project under construction right now. So our ability to execute and

build world-class assets during COVID is something that I'm very proud of the team for. Polyurethanes and the growth in our systems business downstream, whether it's in construction materials or whether it's in insulation materials or whether it's in automotive applications, that business continues to have double-digit growth and its high-value add.

Jim Fitterling: And I mentioned before, in electric vehicles, we're seeing 40 to 50% more use of our traditional materials versus internal combustion engine vehicles and four to five times more use than silicones, and that's because they appear in more parts of the automobile. There are more electronics on an EV. Noise vibration and harshness is a different sensitivity than it is with an internal combustion engine. You've got a lot more communications. You've got heat transfer issues you've got to deal with batteries, and you've also got to protect all of that from the elements and silicones does the absolute best job of all of that. So high growth area for us in that space.

Jean Ann Salisbury: This is a real generalist question follow on, on the electric vehicle types of silicones and plastics, but are they more complex to produce, and you would have fewer competitors that would be able to say, kind of be in that market?

Jim Fitterling: It's a different value chain, obviously, because you've got the powertrain in an EV is really the battery and the delivery system to the axles, and it's a different than it is with an internal combustion engine. So you'll see GM, for example, making the coin investment in batteries because power train's critical to making that car move. So I think you're seeing that shape out, whether it's in China or whether that's here, but the tier OEMs, they're dealing with the body of the car, the internals of the cars, et cetera. They're the same. You'll see different battery producers. You'll see maybe some different technology into breaking systems and other things, but you'll see more electronics and that'll start to look a little bit different than what the traditional car looks fine.

Jean Ann Salisbury: Makes sense. Cool. Moving on to some general DOW business questions. Now, that Sadara refinancing is done, what are the next steps on the project?

Jim Fitterling: Well, Sadara is doing well. It's running well, and obviously it's also benefiting from improvements in the economy and the Asian growth. And so that's the reason we built it in the first place. In addition to just the refinancing, we improved the cost position of Sadara with bringing some additional feedstocks in. So we've got additional tents near supply for more ethane allocation in there, and five years extension to the liquid feed stocks that come in as well. So it really improves Sadara's feedstock flexibility by about 30, 35%. And it's going to continue to reduce its break even cost position, and it's benefiting from a higher prices in the market as well.

Jean Ann Salisbury: Okay. Where do you hear from investors that they want you to invest your marginal dollar, projects, debt, dividends, et cetera? Or would you say that there's no consistent message and every investor wants something different?

And then what are your priorities for the marginal dollar, I guess, outside of necessarily what investors want?

Jim Fitterling: Well, there are a lot of demands, obviously, and investors, as well as other stakeholders, put a lot of demands on us. Let me just walk through our current capital allocation priorities, and then just let me talk about some of the things that we have to keep in mind as we move forward. Safe, reliable operation of the plants is part of our license to operate and that's critical for us, but that's also what keeps our costs low. That's about a billion dollars a year for us to do that. Supporting our dividend is key. We have an industry leading dividend by design, that's 2.1 billion a year, and then we've got incremental growth CapEx. And we raised that from last year from about 1.25 billion to 1.6 billion this year. And we're going to start to step it up to depreciation levels, to really invest in some of those downstream markets that I just described to you.

Jim Fitterling: We've got some debt de-leveraging near term that we need to do. We've got a billion right now in 2021, which we completed already. So that's good. And we had committed share buyback to cover dilution. So we don't want to dilute shareholders out, and we want to support that dividend. Beyond that, we've got a lot of good organic growth projects, and we also have to keep a focus on ESG. And so if you think about ESG, our biggest challenges are in two areas, plastics, recycling. And so we're not going to put all of our incremental dollar into that, but we're going to leverage our dollars through partnerships with people like Circulate Capital, Closed Loop Recycling, and others to really drive investment in recycling because the demand is there from the downstream brand owners for more recycled content,` and we see that in our own plastics chain. We are our products with recycled materials in them grew almost double versus last year, and so we're going to continue to see that kind of trend ongoing.

Jim Fitterling: At the same time, production of ethylene and our power and steam uses at our large sites are our biggest CO2 contributors. We need to refresh some of that capacity anyway, because of age, and we'll make investments there to be more efficient producers of power and steam and drop our CO2 emissions. Over the last 10 years, we dropped CO2 emissions by 15%. We did that largely by relying where we could on alternative energy, like wind and solar. We will reach a limit on that, and then we'll have to look at some of our existing combined cycle power plants and make investments there. So we're making one right now in Plaquemine, Louisiana to upgrade our power and steam facilities there. That investment will lower our CO2 footprint by 580,000 tons, that one project, but it also make Plaquemine more cost competitive and it'll extend the life of those assets for another 30 years.

Jean Ann Salisbury: Great. Moving more into plastic circularity and recycling. How would a high global recycling scenario impact polyethylene demands in the next 10 to 20 years? And do you run those scenarios?

Jim Fitterling: We do. I think the end use of polyethylene demand would still continue to grow, like the 1.3 to 1.5 times. How much virgin material you would need to make to

supply all that might change. So it may mean you need less new capacity coming on, but you have to blend more recycled material with the virgin content. And so that's what we look at. And we watched the trends in our own products in terms of how much post-consumer recycled content could be in there. There are very few products where the end product is fully 100% post-consumer recycled material. To get the properties that you need, you need to blend post-consumer recycle with some virgin materials. And when you get into structural products like wood decking and other things, you have to blend in other fillers together with that. So we run those models all the time, but I don't think it's going to change the fundamental downstream demand for the finished product. It'll just change how much new PE capacity, virgin PE capacity you need to bring on.

Jean Ann Salisbury: Makes sense. And can you kind of talk through the impact to Dow that you would see if, in one of these scenarios, let's say that several of your buyers, such as consumer product producers, auto, just really began to ramp up the required recycled plastic quota in their products. How would you kind of interact with them and would that ultimately be good or bad for Dow's business?

Jim Fitterling: I think it's good. I think it's good because from an innovation standpoint, you have to deliver a product that meets their needs. And to do that, you really have to understand the technology very well. A lot of what we do today to design for recyclability is help them formulate what combination of products can go into that package. And so that really is in the sweet spot of what we do. We have a lot of partnerships out there today on everything from mechanical recycling to advanced recycling, and we'll continue to grow that. And as you've seen in the market, the amount of funds moving into ESG investments, the amount of money being mobilized into recycling investments in the US is very strong. Estimates right now are up to $5 billion going into these types of investment and some of its infrastructure together, the recycling and sorted, and some of its infrastructure to convert it back into materials that we use.

Jean Ann Salisbury: Got it. So the fact that by putting in more recycled plastic requires kind of more engineering, kind of gives you fewer competitors, and doesn't necessarily, it's not negative for your margin. It might even be positive because of this. Is that the right way to think about it?

Jim Fitterling: I think that's the right way to think about it. I don't think that we're thinking that it's going to be dramatically positive, but I think we think we can be cost-competitive and do it, and still continue to see that growth. It's a little bit more expensive today to recycle materials than it is to make virgin materials. But I think that will change over time and we have to take into account what's happening with policies around carbon taxes or emission trades schemes and prices on carbon. And I think that'll start to shift the break point on that, and that'll start to accelerate the move. I would just put it this way, whether it's CO2 or whether it's recycle on plastics, we're embracing it as an opportunity for innovation and growth. And we think it's the right thing to do for the world.

Jean Ann Salisbury: Yep. That makes sense. And then just building on that question, my next question was actually, how would a carbon tax affect Dow's margins and business decisions?

Jim Fitterling: Well, I think honestly speaking, if it was a carbon tax, I think it would end up showing up in the price of the product. I think there's no other way than to reflect it that way. The real challenge on all the policy front right now, and I wish I had a crystal clear answer for you as to what was going to happen, but the real challenge on the policy front is tax is a great revenue generator for the federal government, but we're also trying to put money back into solving the problem of CO2 emissions and recycling, and so it's where the tax money gets directed, I think that's the bigger challenge that we have to face. And we've seen schemes around the world of emissions trading its games in Europe, which was similar to a cap-and-trade concept that was here in the United States some years ago. And those work, those drive down CO2 reduction, but they also raise the cost of production.

Jim Fitterling: I think everybody needs to understand that, doing it in a way that balances low carbon emissions and low cost, is going to be higher cost than what we do today. And that should be understandable to everybody. And what we have to do is to try to drive these policies to a point where we're not doing outlandish things.

Jim Fitterling: If blue hydrogen is incrementally more expensive than doing it the way we're doing it today, and green hydrogen is 15 or 16 times more expensive, then let's be smart about what we're trying to do here. To make green hydrogen work, we really need new investment in nuclear capacity to make that work at any scale. Because we have to be able to deliver electricity, to make that green hydrogen at very low cost.

Jean Ann Salisbury: If the U.S. infrastructure plan passes, how would that impact those downstream markets, and how should we think about capturing that outside potential?

Jim Fitterling: Very positive. I would say, between $600 and $800 billion of that $1.9 trillion infrastructure spending bill, will impact positive opportunities for us and electric vehicles, road, bridge, school, water system construction, critical goods capacity that we need here.

Jim Fitterling: There'll be R&D support for climate change and large-scale carbon capture. All of these are positive for us. And so, we're very supportive of an infrastructure bill that's really focused on those infrastructure areas.

Jean Ann Salisbury: Great. What is the status of the announced restructuring?

Jim Fitterling: We'll have about $150 million this year of that benefit, and then the additional $150 will come next year. So by the end of next year, we'd have achieved the full $300 million run rate.

Jean Ann Salisbury: That makes sense. And then we talked about this a bit earlier, but if there is massive growth in EV, electric vehicle, penetration in the next 15 years, is there going to be a lot of CapEx required for about to pivot and serve that growth, or is that something that you can easily do with the assets that you have?

Jim Fitterling: I think we can do that within our depreciation and amortization levels. That's the kind of downstream investments that we're doing today in silicones and in polyurethane systems. We won't slow any of that down and we're able to manage that every year today.

Jean Ann Salisbury: You may say silicone, since we did talk about this a bit earlier as well. But for the future investments, what do you think about for size versus the past and which areas would you most want to invest in, versus the past and areas that are changing?

Jim Fitterling: Right now we've got investments in all three, I would say. When you look at PM&C, areas like silicones for sealants, also binders and other products that go in there, de-bottlenecking to support EVs, construction materials like glass glazing and architectural glass applications, are going to be very strong.

Jim Fitterling: More formulated silicones into applications like packaging, labeling those kinds of various personal care products as well. In industrial solutions, you'll see more in terms of sustainable intermediate products for downstream applications.

Jim Fitterling: We talked about agriculture, but into projects like the pharma industry and for over-the-counter medications. Alkoxylation for products like home and personal care. Textile applications will continue to grow.

Jim Fitterling: And those will be more systems applications. Whereas in the plastics & specialty package side, it will be more focused around recyclability, differentiated downstream solutions, and getting our footprint on CO2 down.

Jean Ann Salisbury: That makes sense. Can you talk a little more about your CO2 footprint and your plan for getting that done?

Jim Fitterling: So we announced targets for 2050 to be net zero by 2050, and a 15% reduction in actual emissions by 2030. The 15% reduction in actual emissions is coming largely from our power and steam applications, but also from new technologies that we're working on to make ethylene and propylene inside our facility.

Jim Fitterling: So we've got FCDH technology, which is like a fluidized cat cracking technology to make propylene from propane. That does it at about 25% less CO2 than the existing technology today. We're working on ethane to ethylene technology, that would be about a 40 to 50% reduction of CO2 versus today.

Jim Fitterling: We're working with Shell on an electric cracking furnace, versus a natural gas fired cracking furnace. That's a longer-term bet. But if we were able to get, say

for example, an interest in a small modular reactors for nuclear and electric cracking furnace, could be a strong combination to get ethylene production to zero CO2 emissions.

Jim Fitterling: So that's a long-term bet that we have to have a stake in. And then in the near term, blue hydrogen and carbon capture are two big areas. So in Terneuzen in The Netherlands right now, we're working closely there at the site and with the government, around using blue hydrogen to co-combust in one of our existing crackers, and retrofitting it to be able to capture the CO2, and really bring down the emissions on that footprint.

Jim Fitterling: So we've got several really strong, possible solutions that are going to allow us to bring ethylene down. Powering steam, I think is a little bit more straight forward alternative energy combinations, along with the near-term upgrade of existing facilities, which brings down that footprint like Plaquemine that I mentioned. And then very long-term, keeping an eye on and keeping some engagement on what's happening with small modular reactors in the U.S.

Jean Ann Salisbury: Got it. Cool. We have about one or two minutes before we come up on 8:45, so if I could just close on asking for your... Sorry. Were you about to add to that?

Jim Fitterling: No, no.

Jean Ann Salisbury: Okay, great. If I could just close on asking for your one-minute elevator pitch or dough to a generalist?

Jim Fitterling: Strong earnings for the year, we upgraded our second quarter guidance by $400 to $500 million versus the current First Call consensus. I expect the demand to be strong from a supply demand perspective for the rest of the year. And I think we've got good momentum into next year.

Jim Fitterling: Oil price is going to continue to be constructive. We have one and a half billion dollars of upside deliverables on margins over the coming short term. And we've got a very good game plan on getting to a net zero carbon by 2050, and making some significant reductions by 2030, and addressing the plastics waste issue. And don't forget about silicones, one of the fastest growing sectors in the petrochemical industry, and we're the leader in that space.

Jean Ann Salisbury: Great. Perfectly a minute. Thank you very much for joining us, Jim. And thank you to the audience.

Jim Fitterling: Great to be with you.

Jean Ann Salisbury: Okay.