

Dow Inc.| Citi Basic Materials Conference 2021, December 1st, 2021

PJ Juvekar:

Good morning, everyone. My name is PJ Juvekar, and welcome to day two of the chemical conference. I should say basic materials conference. We also have some paper and packaging and metals and mining companies today. Our first presenter today is Dow president and CFO, Howard Ungerleider. Many of you know Howard, he joined Dow in 1990 and his career has spanned a wide variety of commercial and business roles. He was appointed CFO of DowDuPont in 2016 and played a pivotal role in successful formation of three companies out of that. Before I turn over to him, let me read a disclosure statement. This event is open to public. Please refer to the cautionary and forward looking statements in the materials Dow will post. And with that Howard, the floor is yours.

Howard Ungerleider:

Well, thanks PJ. Good morning. It really is great to be with all of you. Thanks for having us today. Now look, before we get into the Q and A, I just want to provide a brief update on the near-term outlook and our path to continue to create long term value. The economic recovery continues as demand remains strong across our key end markets. In fact, the ISM manufacturing PMI index remains well above the 10 year average, a sign of ongoing order strength for new orders. Now, as many of the travel bans have begun to be lifted, bookings for domestic and international air travel have also begun to increase. Global demand for polyethylene also remains strong and is expected to continue into 2022. Along with the economic recovery. This demand strength continues to be constrained somewhat by lingering logistics challenges around the world. Supply positions are also continuing to improve.

Howard Ungerleider:

I would say for Dow and also for the industry following recoveries from weather related unplanned events, the turnaround season, as well as the startup of some new polyethylene capacity on the US Gulf Coast. At the same time, energy and feed stock costs have been elevated until last week resulting in higher raw material costs in the quarter. And when combined with low lower co-product prices, they're also putting some downward pressure on margins on our packaging and specialty plastic segment. These dynamics are expected to lower our fourth quarter EBITDA by approximately $150 to $200 million versus the current first call analyst consensus estimate. We will of course continue to leverage our advantage global footprint as well as our structural cost and our feed stock advantages to help mitigate some of this in impact. Despite these near term pressures, we expect global logistic constraints to ease as we move through next year.

Howard Ungerleider:

To that point, order backlogs remain robust with inventory to sales ratios well below their 20-year averages indicating upside going forward from satisfying currently unmet demand. For polyethylene easing a marine-packed cargo and supply chain constraints will increase exports from North America, further tightening the domestic market, and we expect oil and gas spreads to further improve as oil prices will continue to incentivize drilling and will bring with it more natural gas, certainly an advantage for team Dow and our product portfolio. Consumer and industrial demand also remains healthy and global GDP forecasts for next year are expected to remain well above historic averages. We continue to see an under appreciation for demand strength, and third party forecast and an overestimation of the impact of supply additions. Longer term, we remain focused on our strategy to decarbonize the enterprise while growing earnings, growing cash flow and improving ROC, as we laid out our investor day earlier in the year.

Howard Ungerleider:

We participate in attractive market verticals that are growing at one to one and a half times global GDP with a total addressable market that's projected to expand to more than $800 billion by 2025 driven really by a growing middle class and increased demand for more sustainable products. We are executing on our earnings growth levers to deliver more than $3 billion in additional underlying EBITDA through our growth investments and higher return, lower risk and faster payback capital projects, as well as our efficiency programs and through our plans to create the world's first net-zero carbon emissions, ethylene and derivatives cracker complex in Alberta, which will enable us to achieve our 2030 and on our way to the 2050 emissions reductions targets.

Howard Ungerleider:

The Fort Saskatchewan Alberta cracker expansion was recently completed is now achieving design rates. And has been successfully tied into the downstream polyethylene unit, and importantly, we'll continue to maintain a disciplined and a balanced approach to capital allocation, keeping CapEx within D&A targeting greater than a 13% return on invested capital and continuing to return 65% of our net income to shareholders across the economic cycle. So with that, PJ I'll hand it back to you for the Q and A

PJ Juvekar:

Thank you, Howard. It was a great summary. And before I launch into my questions, I would remind investors that if you want to ask a question, please click on that link on the landing page, the bottom right hand corner, and those questions will come to me and I'll read them out. So with that Howard, that was a great overview. You hosted investor day very recently. It was my first in person investor day. So thank you for that.

Howard Ungerleider:

And it was great to see you. And so many people that showed up at the new stock exchange PJ.

PJ Juvekar:

That was great. Look, let's start with ESG because I know that's at the front and center of Dow strategy. You talked about your path to carbon zero emissions and your goal to cut carbon emissions by 30% by 2030. Can you talk about some of the levers that do is pulling to achieve this?

Howard Ungerleider:

Let me start PJ with Texas-9. And I think we spent a fair amount of time unpacking our Texas-9 cracker, which started up in the 2017, 2018 time frame, and I start there because I think it's a great foundation for the strategy that we talked about at the New York stock exchange back in October, but Texas-9, we built that asset 12 months faster than the average cracker in that wave of crackers. It had 20% capital cost efficiency relative to the North America industry average. It has 60% lower carbon emissions, and that does not have any special bells and whistles on carbon reduction technologies, just a matter of state of the art technology. And it's got 65% lower conversion cost. So when you think about all, and it's been running at above a hundred percent of nameplate capacity since about 30 days after startup and I think that speaks to our ability to design, our ability to engineer, construct, build, and fundamentally operate this cracker.

Howard Ungerleider:

And so since the cracker startup, it's been running a return on capital of north of 15%. And so we're going to take all of those learnings and apply it to the Alberta project. And as I said in the opening comments it's the industry's first zero carbon emission site once we complete it. And basically we'll take all the learnings from Texas-9 and apply it to the new cracker in Alberta, we will add to that auto thermal reformer and tie into the Alberta carbon captured trunk line there. And so basically we'll take all the off gas on the cracker and then it basically recycle that to get to zero carbon and that is also going to at this same time, triple the polymer output that we have at the site. And so frankly, I would be disappointed if it had the same return on capital of Texas-9, it should be north of that, just based on the fact that we're going to be able to triple the polymer output at the site.

Howard Ungerleider:

And that doesn't yet factor in any potential premium for zero carbon product. And I think over the next 10, 20, maybe even 30 years, there's going to be more demand for net zero carbon polymer, and there's going to be supply. So we're very excited about that project. And then we've got about 12 sites in total that make up more than 90% of our scope one and two emissions. And so Alberta will be most likely the first site that we accomplish.

Howard Ungerleider:

And then we'll go around the world with the remaining 11 other sites to address this between now and 2050, which is our ambition and our goal to be zero carbon emissions by then. Fundamentally we'll do that based on our own affordability and cash flow. We'll do that based on the regulatory environment and the ability to drive higher return on capital. It's hopefully if anybody took away one thing from our investor day, it was we're going to continue. We've had a disciplined and a balanced approach to capital allocation since spin. And we very much intend to continue that disciplined and balanced approach going forward to drive higher earnings, higher return on capital, higher cashflow over the economic cycle. PJ.

PJ Juvekar:

Great. Just sticking to the Alberta cracker. You mentioned that to start up in 2030, given your expertise in starting up crackers, why does it take so long, 10 years and what sort of capital expenditure should we expect given the higher CapEx needed for carbon capture and all that?

Howard Ungerleider:

Yeah. Look, we're not going to give an absolute CapEx yet. We're still in the feed stage of that. So before we get to a board approval, or when we get to a board approval, we'll share the actual numbers. I think it's reasonable to assume a Texas-9 kind of rough estimate, but then I would take 15% reduction on that. But then you have to add in the cost to tie into the carbon capture trunk line, and then you have to add in the cost for the auto thermal reform. That's the away, at least PJ that I would think about it. We may be able to do it faster than 2030. It's going to help us deliver on the 2030 carbon reduction goals.

Howard Ungerleider:

So remember, we've already taken 15% of the carbon out from 2005 to 2020. So our goal is to take the next 15%. So to get to us 30% reduction by 2030, the Alberta project will be one of the key projects that will help get us there. If we can get it done faster, we will, Alberta is a friendly place for business. I would expect that the permitting process will go reasonably smoothly, but it'll take us probably until the end of 2022 before we get to a final investment decision.

PJ Juvekar:

And then you want to electrify your crackers. And I think Jim also mentioned nuclear power as a potential way to use small nuclear modular reactors to do that. Can you just start a little bit about that?

Howard Ungerleider:

Yeah. We're working on several medium, well, several short term, as well as medium and long term levers to maybe your earlier question. The Alberta Project is kind of a short to medium term project. You think about FCDh you know, we're building an FCDh plant in Louisiana right now that should come on stream next year. That's 20 to 40% lower Cap Ex and potentially 20% reduction of CO2 emissions versus a traditional PDH plant.

Howard Ungerleider:

We're in the process of taking those learnings, we still need to do some catalyst innovation work that our technology team is working on to create EDH. So basically taking FCDh and converting that technology to make ethylene from ethane through dehydrogenation, that would be 20% lower capital intensity and potentially 40% lower CO_2 than any cracker in Dow's fleet.

Howard Ungerleider:

And so that would be the next lever after FCDh would be EDH. You talked about e-cracking so we have a joint development agreement with Shell. I would say this is more of a longer term play. It's going to take us a while to figure out how to do e-cracking. Our goal is to have a decision for pilot scale to be made next couple of years. And if we were able to do that, you more than likely need, well, you definitely need rateable and consistent energy source. And so that's not likely unless battery technology comes a lot further than people think in the medium term, you're not likely going to be able to get there with just solar or wind.

Howard Ungerleider:

That is another lever that we are pulling, we now, I think in October, we announced additional megawatts. We have now 850 megawatts of power under contract of let's say sustainable energy under

contract. That makes us one of the top 20 industrial users of renewable energy in the world. And then obviously in order to get that e-cracking capability, one of the ideas is modular nuclear.

Howard Ungerleider:

Think about this as a small nuclear asset either inside the fence line or at the fence line of an asset that would give you that clean energy renewable at the same time that it's giving you rateable energy to be able to take an electric cracker and create that at scale.

PJ Juvekar:

Great. Great. And you've talked about Dow's involvement in circular plastics economy. How much of your sales today go into sustainable products and let's say five or 10 years down the road, how big could that be in terms of your products that you sell?

Howard Ungerleider:

Yeah, I would say look over 80% of the polyethylene we make today is either fully recyclable or reusable, and we've got a goal to get that to a hundred percent. That's the action that we're working on between now and 2035 is to get that to fully 100% recyclable. You mentioned a few agreements so we've got probably a handful of agreements now around the world to take recycled material, turn it into essentially paralysis oil, to put that back into a cracker to make circular plastics.

Howard Ungerleider:

We're also working with some wood pulp producers to get sustainable wood pulp and turn that into a bio-based naphtha feed stock. So those are all the projects that we're continuing to work on to drive an increase in recycling rates and an increase in circularity.

PJ Juvekar:

Great. Now let's turn this segments and focus on my couple of questions on the ethylene polyethylene chain. The market saw tremendous price increases over the last 16 months. And then in October we saw price decline somewhere around five to 10 cents. Maybe you can comment on that, but where do inventory levels stand in the U.S.? Have inventories been built? And you mentioned earlier that the export market is opening up and so export prices are much lower than domestic prices. Sort of tie that all together into your view on polyethylene, Howard.

Howard Ungerleider:

I mean, so look, I would say, let's start with demand, PJ. I mean, demand has been robust around the world. We never saw any reduction in polyethylene demand, even through 2020 in a normal kind of recessionary environment, you might see 3 to 5% demand reduction, but based on the change in habits of folks through the pandemic in 2020, polyethylene global demand was up 3 to 5%, depending on where you were around the world.

Howard Ungerleider:

This year, polyethylene demand is going to be up, the year's not over, but it's looking like another 5% kind of demand growth year. So demand continues to be strong. And if you look at a GDP forecast, in the four and a half to kind of five and a half percent range that will drive the need for additional supply.

Howard Ungerleider:

And when it comes to inventory your inventory question, look the ACC data in the U.S. in October, the inventory came up a couple of hundred million pounds I think it's in the range of 2 to 3% of supply. I think what folks are missing though, when they say, well, demand or inventory is higher. I think you have to take a step back and say, what's going on with the supply chain and the logistics constraints? A significant amount of that production is going export.

Howard Ungerleider:

The reality is with all the supply chain and logistics issues, that's probably adding a total of about 10 days of time to get product let's say from the U.S Gulf coast to Europe, or getting it from the west coast to Asia. When you look at a 2 to 3% inventory move that it just makes no sense that that would be a reason to reduce price with that said, I think in my prepared comments, I did flag that look the turnaround season is starting to end.

Howard Ungerleider:

The industry is continuing to recover from winter storm Uri earlier in the year, and even the hurricanes. So you are seeing a little bit more supply growth, but I think I also said in my comments that the third party forecasts continue to under call demand growth and over call supply growth. From our perspective we see good GDP growth, which will drive good industrial production growth. And really for every 1% of GDP, you need two to three brand new world scale crackers, world scale polyethylene units I should say, if everything is running well.

Howard Ungerleider:

And the reality is if you do the math between now and 2025, the average age of the fleet with even the new capacity that's coming on, the average age of the fleet is getting a year older every year. The amount of capacity that's coming out is not enough to reduce that average. And I say that because as these assets run hard and these assets age, they tend to have unplanned events.

Howard Ungerleider:

And then the question is what other weather events will we, or won't we have next year, this year was certainly a particularly above average weather event year, but I would also say that it seems like every year, the unplanned events due to weather are tending to increase. We'll see what happens, October in the U.S. we lost 5 cents, November is still being discussed.

Howard Ungerleider:

But what I would tell you is if you look at global demand in November, and you look at global demand versus October, it's up double digits, and December's too early to call, but the order loading at least on our books for December right now is above the November order load, which is very unusual. Because typically we see a fourth quarter slow down between kind of November 15th till the end of the year, based on the November demand. And at least the December order load. We don't see that today.

PJ Juvekar:

Okay. With that tremendous demand growth, sitting here on December one, what's your outlook for 2022 in that chain? There are a lot of unknowns like energy prices and hurricanes and all that. But

assuming that things are normal, you think sort of margins come down and settle at a normalized level next year?

Howard Ungerleider:

I think it really does come down to demand growth PJ and I'm of the view that demand is going to continue to be strong and that will eat up the additional supply. I would say I wouldn't be surprised if margins come off a little bit. I mean, margins to your point this year were well above normalized. So potentially next year the industry might get there in a different way with slightly lower margins, but more capacity, more volume to sell.

Howard Ungerleider:

That assumes that we have a lower than this year set of unplanned events, which I'm not sure that I would bank on given demand being as strong as it is there's an incentive for everybody to run hard. And when you run hard you tend to stress the machines.

PJ Juvekar:

Right, right. And then one last question here is ethane prices have gone up recently here in the U.S. Propane has gone up as well. Anything on the end year outlooks? I understand the supply's plentiful, but you know anything on the pricing side?

Howard Ungerleider:

Yeah. I mean, look, that was the main reason why in the prepared remarks, I lowered the estimate for the fourth quarter relative to the current consensus by about $150 to $200 million. It's essentially that increased feed stock, raw material pressure that we're seeing specifically in P&SP. But if you look at the medium term, look there is going to be more demand for oil than there is supply. Our view is oils got more upside than downside.

Howard Ungerleider:

I had that view before the Thanksgiving drop. I think this is a short term phenomenon that we're dealing with. Certainly people are worried about the Omicron variant I don't think we have enough information to really assess what the impact of that is going to be. We probably won't for the next three to four weeks, more than likely based on what the experts are saying. But when you think about the medium term, if you believe, if your view is demand growth and you're not going to have as much supply growth of additional new barrels coming on, that will drive oil higher.

Howard Ungerleider:

Oil up will drive naphtha up. Right now, punctually naphtha chain margins are negative, right? And remember two thirds of the world's crackers are based on naphtha and those naphtha assets are not going to run forever at a negative cash chain margin. So if you have a view, which we do, of demand growth, not enough oil supply coming in to match that, that means oil price will move up. That means naphtha price will move up, that will incentivize drilling, especially in shale areas where we have a lot of NGL production as you know, and so that should expand the oil to gas ratio which should be favorable for Dow's product portfolio and our assets.

PJ Juvekar:

And that should also expand it in production.

Howard Ungerleider:

Exactly. Cause as that oil price will incentivize drilling, you'll get a lot of additional NGL production. So, I would say the median term price for gas is probably in the 250 to 350 range. So lower than where it is today.

PJ Juvekar:

Great, so let's run through remaining segments because I am getting some questions here. So talking about II&I. You had supply-related tightness in MDI. I think maybe some of that is coming back, but demand has been robust. Housing, construction, that demand has been robust. So sitting here today, how do you see Supply Demand playing out? With some capacity coming back, but demand really running hot.

Howard Ungerleider:

It does. I think I'm going to start to sound like a broken record here, PJ, but it really does come down to demand. And demand in industrial intermediates and infrastructure has also been very good. You look at construction, five to six percent growth of underlying demand. Automotive, I think this year is going to be eight percent. Next year, the forecasts say it's actually going to increase to somewhere around 10% because the chip shortage that they're dealing with this year. We've got very constructive supply-demand dynamics across MDI, across PG, across EO. There's really no large capacity additions in the industry currently planned. So if you've got reasonably good demand and no additional supply, you're going to be able to get pricing power and that should look to potentially expand margins in that segment.

PJ Juvekar:

And then moving on to PM&C and if there any other questions we'll come back to these segments, but what's your view on the Siloxane supply demand? And then you have this view of turning more Siloxanes into differentiated silicones and that's was part of the strategy. Can you talk to us about where do you stand in that process?

Howard Ungerleider:

Silicon metal has really been the bottleneck. It started with kind of the dual-control issue in China, but then you've got again, the demand growth in building and construction, in mobility, in packaging. That's really all key-market verticals for our consumer solutions business.

Howard Ungerleider:

I think we're in a very good position relative to some of our peers where we have our own supply of silicon metal. We've got joint ventures, we've got long-term contracts. We've got the ability to shift product from one continent to another. That team has been doing a lot of work, making sure that we have the ability to run our big pillar plants hard. We do have the big pillar plant in China down on a turnaround, but that should be coming up soon. So when you think about next year, I would expect good demand growth in silicones or Consumer Solutions to continue.

Howard Ungerleider:

And that should drive a decent earnings growth for our silicones franchise. The other business in PM&C is our coatings and monomers business. There you've got very strong architectural coating demand. You've got the beginning, I think we're in the early innings of industrial coating increases. Obviously the Infrastructure Bill should continue to drive higher demand for industrial markets. We've got good margins right now on the monomer side. And in both our coatings and monomers business and our consumer solutions business, our strategy is to take our merchant position, merchant siloxane or merchant monomers, and continue to tilt it more to downstream, fully-formulated either silicone or acrylic-based solutions, which should lower the earnings volatility and should improve our margins at the same time.

PJ Juvekar:

Now let's come back to more strategy and financial outlook. One of the questions I've been asking all the companies is your view on the supply chain constraints. We had all these issues and shipping rates went higher. It seems to be somewhat easing, but most companies are saying that we don't expect normalization until maybe mid to end of next year. Where do you stand on that view?

Howard Ungerleider:

I have been saying for about the last six months that I don't think inflation is transitory. So it was very pleasing to me to see that we're no longer using that word transitory coming out of the Fed this past week. I think when you think about just inflation in general, look, that labor pool, that labor cost is up and that is going to be sticky. And when those costs come up, it's very hard to reduce that. And so that will penetrate up through the labor pyramid and those costs are here to stay.

Howard Ungerleider:

I think some of the other costs and some of those other constraints will ease. I think capital markets will work. So for example, if you think about shipping, it's a lot easier to build new containers than it is to build ships.

Howard Ungerleider:

So you'll probably get an easing on the container demurrage before you get an easing on your freight rates, because new ships will take, three to five years to get really substantive additional ships in. I would say the middle to the end of next year for it to start to moderate is a reasonable position. But I would also say PJ, we have not had inflation for three decades. And I think we're going to be in that kind of three percent plus or minus inflation for the next two or three years. I don't think this is going to be a short term issue that's just going to go away. I think we're going to get better at learning how to manage it and coming up with alternatives. But you know that's something that every company I think around the world is dealing with and we'll still have to deal with for the next two or three years.

PJ Juvekar:

And then how would you outline your goal to raise cycle EBITDA by 3 billion dollars over cycle? Part of that could be M&A, can you talk to us about what are your thoughts at M&A versus buybacks? And the reason I'm asking this is old Dow before DowDuPont wanted to take the cash flow from sort of the commoditized businesses and become more of a specialty company. Is that sort of the thought process that runs through your boardroom?

Howard Ungerleider:

It's a great question, PJ. Let's start with our capital allocation framework, which hopefully people are now seeing a consistent thread even since before we spun out when we did the Investor Day more than three years ago in the fall of 2018. But first and foremost, safely and reliably operate our plants. We're continuing to invest in improving productivity, improving reliability, strong investment-grade credit profile.

Howard Ungerleider:

So we did lower our debt to EBITDA. We were two and a half to three times on a rating agency adjusted target. Now we're targeting over this next economic cycle, two to two and a half. Organic investments, so we spent $1.6 billion at CapEx last year, we're going to spend approximately $2.2 billion next year. We'll have more to say about that on our fourth quarter earnings call. And then we'll ramp that up to D&A. So around $2.9 billion average, let's say for the three years after that.

Howard Ungerleider:

The fourth is dividends. We want 45% of our net income to go back to shareholders in the form of dividends. So as we grow earnings and cash flow over that cycle, you should model 45% of that going back in the form of dividends. And we want 65% of our cash going back to our owners total. So preferably 45% with dividends. And then we'll top it up with stock buyback at least to cover dilution, but more than likely as the top up to get from the 45% to the 65%.

Howard Ungerleider:

Your question on M&A. No big M&A is in our strategy. There are potential for bolt-ons. I would say that's in the millions, not billions. And it's really focused on places where either we can take a product and deploy it around the world, or we have a technology that we can deploy with our global footprint.

Howard Ungerleider:

Those are areas I would say in silicones, in polyurethane systems and acrylic formulation houses, or let's say the traditional case, market coating, adhesive sealants, elastomers, that would be the area, but it would be very focused on bolt-on.

Howard Ungerleider:

PJ, to your point, we've tried very much to message. We know who we are. We want to be the world's best material science company. We've got the four pillars of our ambition to be the most innovative, most customer centric, most inclusive and most sustainable material science company in the world. That's who we are. We are very proud of that. It's got a very long heritage and we can take all of that capability in a disciplined and balanced approach to the capital allocation. And we can drive that 3 billion dollars higher earnings, which will drive higher cash flow, and will drive a return on capital of north of 13%, and giving 65% of that cash back to the owners and then using the other 35% to do everything that I said in a very disciplined, and in a very balanced way.

PJ Juvekar:

So no large specialty acquisitions is what you're saying.

Howard Ungerleider:

No.

PJ Juvekar:

Let's run through some questions that I'm getting here. The first question is on pre-buying. He's asking if we look at large consumers of PE, their financial statements. Raw materials as a percentage of sales has peaked while Tupperware recently announced it would idle facilities due to high inventory? So how can you be so sure that they didn't pre-buy inventory?

Howard Ungerleider:

I don't think anybody can be sure of anything these days. So I'll put that out there, but I would just look at our demand, right? I look at our November demand for polyethylene and globally, it was up double digits versus October. And like I said, the December order book looks even stronger than November. Look, it's always possible that you get a December slow down. Today's the 1st of December. So it's too early to call. Historically people certainly look to improve their working capital or improve their balance sheets before the end of the year snapshots. So it is possible. We'll see what happens with the Omicron variant, but right now demand is strong and the order book is robust. So we just don't see it.

PJ Juvekar:

Okay. The next question is, a variety of industry issues contributed to exceptionally strong pricing in your II&I business in 2021. How much of a headwind might that present in 2022, if operating rates normalize? Do you get that question?

Howard Ungerleider:

Yeah, operating rates should continue to be high because of the domain. This again, it goes back to your view on demand. Our view is you're going to see GDP next year of plus or minus 5% globally. Besides 2021, we haven't seen 5% GDP growth. You'd have to go back to kind of the 2005 period before you saw that global GDP number with a five handle on it. And that will drive industrial production. And there is a lot of disposable income out there, and people are continuing to buy things. That will drive the demand growth in industrial intermediates. And so I just don't see the operating rates going to the point where you're going to see a significant downdraft. You likely could see some margin compression, right? Because of the point that we talk talked about earlier about margins, are well above normalized, but, I can't imagine a situation where you would go below a normalized margin for 2022, barring some other major exogenous event that we can't think about, I don't see on the horizon.

PJ Juvekar:

Right, thank you. The next question is on your guidance that you updated today.

Howard Ungerleider:

Yep.

PJ Juvekar:

Does the adjustment to 4Q guide today, only factor in October PE prices or does it also potentially factor in November, December pricing?

Howard Ungerleider:

Yeah. Whenever we communicate with our modeling guidance, we try to think about the whole quarter, so that is looking at what we know today, and that's why we lowered it a $150 to $200 million on average versus the current first call consensus. October, like we talked about on polyethylene, went down five, November hasn't settled yet, but based on the demand growth, my personal view is, it shouldn't go down. We'll see how that, settles out over the next, five or six days or so. But, our number, we're trying to give you the best thinking that we have, based on where we'll end the quarter.

PJ Juvekar:

Great. And my last question, here from the audience, is using Consensus 2021 EBITDA, can you walk us through your free cash flow for 2021 and is working capital starting to come down?

Howard Ungerleider:

So, you're talking about for 2021, PJ?

PJ Juvekar:

2021, yeah.

Howard Ungerleider:

Yeah. So, you're looking at a $12 billion plus or minus EBITDA, you're looking at about a seven, seven and a half billion cash from operations, and then you've got the $1.6 billion of capex. We've talked about all the stock buyback that we've been doing. You've got $2.1 billion of dividends. We did 400 million of stock buyback in Q3, $200 million in Q2. We said on the last earnings call that we were going to do another $400 million of stock buyback in the fourth quarter. So I would put that into the model as well, but that still leaves you with a reasonable free cash flow. That's how I would break it down for you, PJ.

PJ Juvekar:

Okay. And maybe we have couple of minutes left, so maybe I'll ask you a last question.

Howard Ungerleider:

Okay.

PJ Juvekar:

Of a big picture question. Yesterday we hosted a banker panel and we had Chris Pappas, who you know. As well as we had-

Howard Ungerleider:

Is Chris a banker now?

PJ Juvekar:

We also had someone from Platinum Equity, a private equity firm, and they were talking about how the lower end of the valuation range and the high end of the valuation range has become very wide in the chemical industry. It is perceived that maybe companies that are supplying to EV's or 5G, tend to get that high multiple while the low end of the multiples really haven't moved up when the high end has

moved up. And, you think about that and you think about your exposure and how you are exposed to different sectors, what can you do, and not that we are trying to chase the latest fad of raising multiples, but how do you position yourself or how do you get into some of those growth areas like EV's or 5G or biologicals, or whatever it is, whatever fits in your molecules and your chemistries, how can you get more of that growth?

Howard Ungerleider:

Yeah. I'm guessing that every CEO or every CFO you ask this question to, they believe their stock is undervalued or their multiple is too low, and I would say, I'm no exception. But I would say that, I didn't listen to that panel, but fundamentally it is wider than it's ever been. You look at our company, based on sell-side estimates for this year, our stock is trading at below a six times, EBITDA multiple, which is well below, any period in history. And so what can we do? Look, what we are doing is, we're focused on addressable markets that are large and growing. And, there is three to four times more silicone in an EV car than in a traditional internal combustion engine vehicle.

Howard Ungerleider:

The same is true with our elastomers, our urethane technology. There's 50% more product in some of these higher growth markets that we are exposed to. So we're exposed to higher growth markets, we continue to invest in technology and innovation. Remember innovation is one of our four pillars that allows us to continue to drive higher margins, whether it's catalyst innovation or product innovation or process innovation, and we have active programs along all three of those, to drive higher margins and higher cash flow. And so, we're continuing invest in reliability investments. We've got three billion dollars, and that's on the low end. If you want to put, current margins on there, you're talking about north of four billion dollars of higher EBITDA, with the growth investments, whether they're capex investments or opex investments, and we're going to do it in a disciplined and a balanced way.

Howard Ungerleider:

And you look at the margins, I mean, you just take our P&SP business, put that P&SP segment margins over the last 30 years, I would put those margins up against any specialty chemical company and say, why would P&SP be trading at such a large discount when the margins over the last 30 years are just as good? Those are things that I would say, but with that said, PJ, the market judges your performance, every tick from 9:30 Eastern to 4:00 PM Eastern, far be it from me, we're going to continue to do our job in a disciplined and a balanced way. And you know, the market will decide.

PJ Juvekar:

Great. Howard as always very concise and clear. Thank you for your time. Very insightful comments here. And I'll talk to you soon.

Howard Ungerleider:

Have a good day, PJ. [crosstalk 00:44:08]