S&P Global
Market Intelligence

Dow Inc. NYSE:DOW

Company Conference Presentation

Tuesday, December 03, 2024 3:15 PM GMT

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Good morning, everyone. For our next fireside chat, I'm joined by Jeff Tate, Chief Financial Officer of Dow. In his role as CFO, Jeff is a member of the company's executive committee that sets strategic direction, defines priorities, establishes corporate policy and manages governance.

Before rejoining Dow in late 2023, Jeff served as Chief Financial Officer and Executive Vice President of Leggett & Platt, a $5 billion diversified global manufacturer.

Prior to his tenure at Leggett & Platt, Jeff served in various finance leadership roles at Dow spending a more than a 25-year career with the company. He's also a member of the Board of Directors of Huntington Bancshares, Business Leaders for Michigan and FCLT Global. Jeff, thank you for joining me here today. I know you wanted to kick it off with some prepared remarks with some accompanying slides.

Jeffrey L. Tate
Chief Financial Officer

Great. Thank you, Patrick, and it's a pleasure to be here today and be able to join the conference. So, before I go into the Q&A, which we're excited to kick off here. I want to start by just sharing some of our key financial priorities that I have as CFO, including how we're going to maintain a solid financial foundation that Team Dow has built over the past several years.

I also want to walk through some of the current dynamics we're seeing across our end-markets and how our consistent capital allocation priorities will enable us to invest for profitable growth as well as drive higher shareholder returns as market conditions improve.

So, with the first slide here, our intentional actions over the last several years have given us a solid financial foundation to advance our long-term strategy and deliver on our commitments. And this is driven by our focus on operating efficiently, generating cash flow across the cycle and maintaining a strong investment-grade balance sheet. We have ample liquidity of approximately $13 billion and we've delivered industry-leading cash flow conversion over the last several years.

In fact, our cash conversion cycle is now approximately 8 days below pre-COVID levels, which equates to more than $1 billion of savings. We've also significantly reduced our net debt and our underfunded pension liabilities by approximately $7.5 billion since 2019. And last year, we took actions on the annuitization as well as the risk transfer of $1.7 billion in pension liabilities. In addition, nearly all of our long-term debt is at a fixed rate with no substantive debt maturities until 2027.

As part of Dow's ongoing practice of reviewing our global portfolio, we're making really good progress on several different fronts. In fact, this week, we announced that Dow has completed the sale of our flexible packaging laminated adhesives business to Arkema for $150 million and this transaction enables us to further focus on our core high-value downstream markets as well as using those proceeds for our capital allocation framework as well as to advance our Decarbonize & Grow strategy.

And speaking of our Decarbonize & Grow strategy, our Path2Zero project is progressing really, really well. In fact, construction progress remains on time as well as on budget. And as a reminder, upon completion of this project, we continue to expect approximately $1 billion of annual earnings upside. In addition, in the near-term, we expect to unlock additional cash proceeds from our nonproduct-producing assets at an attractive multiple in the U.S. Gulf Coast. And this follows other infrastructure-related transactions that we did in 2020 including the sale of our rail infrastructure assets at six North American sites as well as our U.S. Gulf Coast Marine terminal assets.

Now once completed, this latest transaction will enhance our cash flow generation by more than $1 billion in proceeds. And I look forward, and we look forward to sharing additional information and details around that really soon.

So, moving to the next slide. I want to spend just a couple of minutes talking about the near-term macroeconomic conditions and from our standpoint, how they remain muted across most end-markets and geographies. In fact, global manufacturing PMI remains challenging and global automotive productions have softened through the second half of this year.

And as we look specifically at the fourth quarter, we anticipate some normal seasonally lower demand, especially in building and construction end-markets. And as a reminder, our Texas-8 cracker restarted in the third quarter, following an unplanned outage in late July, and we've been ramping operating rates steadily throughout fourth quarter generating an expected add-back of approximately $100 million in EBITDA. The majority of the items we outlined on our third quarter earnings call are largely unchanged with the exception of one area, specifically for fourth quarter.

So, when we entered the fourth quarter, we were expecting the polyethylene prices would remain flat. However, in October, polyethylene contract prices in the U.S. settled down $0.03 per pound which is different than our expectations at the time of our third quarter earnings call. But as we approach 2025, overall, we're going to continue to monitor the impact of interest rate cuts in the U.S. as well as Europe, and also the recent stimulus plans in China, and we anticipate that these actions will provide positive demand trends for a number of our key end-markets.

Moving to Slide 4. As we continue to invest in attractive growth opportunities, I really want to emphasize that we'll maintain our disciplined and balanced approach to delivering on our financial goals. Our capital allocation framework remains consistent, and these priorities have served us well in the past and will serve us well equally moving forward. And as always, our #1 priority is safety and reliability and making the investments necessary to uphold this #1 priority.

We also remain committed to our industry-leading dividend and target a strong investment-grade credit profile with a 2 to 2.5x net debt-to-EBITDA ratio across the cycle. In addition, we expect to invest in organic growth projects with a return on invested capital of 13% or more that will extend our market leadership and also increase our earnings. And lastly, we've reduced our shares outstanding by more than 45 million shares since 2019 and expect to at least cover dilution over the economic cycle.

So, with the differentiated portfolio, solid financial flexibility and additional levers that will unlock cash in the near-term to support cycle volatility, we're confident we can continue to deliver on our capital allocation framework. And these actions set us up really well to drive Dow's next phase of growth and enable more cash to remunerate our shareholders.

In closing on Slide 5. Our near-term growth investments are made possible by the success of our past projects, where we've demonstrated industry-leading returns. In addition, the work we've done to strengthen Dow's balance sheet gives us the flexibility to reinvest countercyclically and drive the next cycle of earnings that are higher than the last.

Our consistent ability to deliver unique-to-Dow cash flow tailwinds positions Dow well to make these types of investments at the bottom of the cycle, enabling us to capture a first-mover advantage in the next cycle. And given the relatively unchanged macroeconomic conditions that I just described, Team Dow is squarely focused on controlling what we can truly control as we close out the fourth quarter of this year and prepare for 2025.

Now this includes three key areas: first, lower unplanned downtime next year following the recent restart of our Glycol-2 facility in the second quarter of 2024 and our Texas-8 cracker in the third quarter of this year. And second, we expect to realize additional benefits from the completion of our growth investments and high-value applications such as packaging, hygiene and home & personal care end-markets. And third, global GDP is forecasted to be positive in 2025 again, resulting in an increased demand that will build on the volume growth that we've delivered so far this year.

So, in summary, Dow is well-positioned for profitable growth in 2025. We've created the financial flexibility to invest countercyclically, grow underlying earnings and enable greater shareholder returns as market conditions improve. So, with that, Patrick, more than happy to entertain your questions as well as the team.

Question and Answer

Patrick David Cunningham
Citigroup Inc., Research Division

Great. Thanks, Jeff. Let's maybe unpack that a little bit, take a walk around the world. I think on the one hand, it seems like volumes are hanging in there, things have stabilized. But price declines have even stabilized in some other segments. But the macro is sluggish at best, oil prices are coming down. Can you help us frame, I think you provided a good overview on 4Q, what you're seeing into next year, where we can see pockets of growth or even further pressure going forward?

Jeffrey L. Tate
Chief Financial Officer

Absolutely. And as I mentioned in some of my opening remarks, no, for us, overall, the macro conditions remain roughly in line of what we have outlined during our third quarter earnings call in October. But just to unpack this a little bit more deeply, we've seen some resilient areas of demand and opportunity for us, especially in the packaging space. More specifically, when you think about flexible food and beverage packaging, that continues to be really strong for us, especially in North America.

We've also continued to see strength in energy. So, think about gas treating and enhanced oil recovery as well as energy transition. For us, wire and cable is an area that continues to be really solid. In addition to that, electronics have also been resilient. So, think about our silicones business. On the flip side of that, there are some areas, no surprise, and we expected this with some softness in those areas that are still very interest rate sensitive such as building and construction and consumer durables end-markets.

And so, for us, the quarter is really playing out with a description of your question here, the way we expected on the volume side. And as I mentioned earlier in my comments, the one area where we have seen some slight difference is in the North American polyethylene prices.

Patrick David Cunningham
Citigroup Inc., Research Division

Got it. That's helpful. And then just on -- you talked about some resilience in packaging. P&SP volumes expected to see continued growth into next year. On those organic growth and volume expectations, how confident are you in achieving that? Do you expect the growth drivers to be more dependent on the macro? Or is this more company specific sort of portfolio shifts?

Jeffrey L. Tate
Chief Financial Officer

Sure. So for us, when we think about Packaging & Specialty Plastics, we continue to benefit from that resilient demand that I've previously described, especially in North America, and we're taking full advantage of our low-cost positions that we have in the Americas to continue to grow above GDP. And when you look specifically at our polyethylene and packaging area, we've traditionally grown above GDP, typically in the 1.2x to 1.4x area. And with our fully integrated polyethylene chain, so think about our feedstock flexibility, our differentiated product mix for both polyethylene and functional polymers, that really positions us well, Patrick, to deliver at least at 3% volume growth year-over-year.

Patrick David Cunningham
Citigroup Inc., Research Division

Got it. And you called out PE prices down. I think there's forecast for additional price down, feedstock costs coming up. I mean how should we think about additional downside to margin? I know in sort of the soft bridge to 2025, there wasn't a ton of margin compression baked in, but you obviously did quite well in 2Q and 3Q this year?

Jeffrey L. Tate
Chief Financial Officer

Yes. It goes back to us the location of our global asset footprint. For us, we see that as a competitive advantage in addition to that differentiated product mix that I mentioned earlier. So, if you think about, 2/3 of our low-cost positions are in the Americas. So that positions us really well. You think about the U.S. Gulf Coast, you think about Canada as well as Argentina from a Latin American perspective.

So, from a margin standpoint, we're positioned really well. But one of the things we're really focused on 2024 to 2025 is that volume growth and being able to maximize and optimize the value that we get out of each additional pound of volume that we're able to deliver in 2025. We demonstrated our ability to grow volume in a very tough environment from '23 to '24, and we would expect to see a similar type of trajectory on the volume growth for '25.

So right now, the expectation is that there could be more balanced to slightly up from a margin standpoint, but we're not counting that in the 2025 numbers that we've shared in our third quarter earnings call.

Patrick David Cunningham
Citigroup Inc., Research Division

And obviously, the strong advantaged footprint in the Americas, but across the pond in Europe, what's your sort of general outlook for PE margins there, the energy complex, demand obviously hasn't been great there?

Jeffrey L. Tate
Chief Financial Officer

The demand hasn't been great, but one thing that we are proud of is where we sit on the cost curve. When we look at our ability with the feedstock flexibility, we're 2x to 3x better than our competitors and our peers in that space. So that positions us well to be able to capture not only the volume that is available, but also do it at a more competitive margin level than what we would see from our peers.

Patrick David Cunningham
Citigroup Inc., Research Division

And then moving on to some of the strategic assessments you have for the Polyurethanes assets in Europe. Further portfolio optimization, you've already done some restructuring in Europe over the past couple of years. What developments do you -- or what do you see as the most value-creating option? And can you share any interest that you may have among potential buyers or what your sort of bias is at this point?

Jeffrey L. Tate
Chief Financial Officer

Sure. Just as a reminder, since 2023, Dow, we proactively targeted specific actions to optimize our global footprint. We've had more than 20 asset actions that we've taken since the beginning of '23. And a lot of those were primarily in Europe, and a lot of those were in II&I segment. And so, what we announced on our third quarter earnings call regarding our strategic review, it's just the continuation of our portfolio actions that we do on a very consistent basis as part of our operating discipline.

And as you think about these assets that we have called out for a strategic review, they are particularly in our Polyurethanes business, just to be clear in that regard. And if you think about our EMEAI, our European sales, overall, EMEAI represents about 1/3 of our revenue on an annual basis. These specific assets that we have identified for the strategic review are about 20% of that 1/3 for the Dow Chemical Company.

So, putting that in perspective, you're talking $3 billion to $4 billion of revenue that is under review at this time. And we're looking at a number of different portfolio options that will maximize value creation for anywhere from a full sale of those Polyurethanes assets, to a partial sale, to a shutdown. And obviously, we won't comment on any specific potential buyers at this time, but I will say that we are open to any interested parties in terms of having a very constructive discussion around what would create the most value and thinking about the best-owner mindset for these assets moving forward.

Patrick David Cunningham
Citigroup Inc., Research Division

And then just on -- this year has kind of been broadly characterized as industrial recession. In the context of your II&I segment, how are you viewing industrial production going into 2025? What's your outlook for MDI, Polyurethanes supply/demand, what developments do you need to see to get more positive on industrial and construction as well?

Jeffrey L. Tate
Chief Financial Officer

Yes. When we think about building and construction end-markets and durable end-market specific for our portfolio, we're going to need to continue to see lower interest rates. I mean that's the reality. We're going to need to see those lower interest rates, which will then spur greater consumer confidence, which will then lead to higher demand, which would then be able to absorb some of the current excess capacity that you mentioned. And if we get that absorption of the excess capacity, which can then lead to increasing our operating rate specifically in MDI, that provides us a great momentum for a supply-demand balanced improvement.

And if we can get that balanced improvement with the higher operating rates, that can provide a greater backdrop for higher margins. And we're not there right now. We really need to see those operating rates in the 80% to 85% range to start to see the industry get some level of pricing power and momentum. And right now, those operating rates are in the 70%.

Patrick David Cunningham
Citigroup Inc., Research Division

Understood. And then Dow has a model for its Siloxanes business with strong downstream integration into silicone finished products. Some of the non-integrated players in the market have been impacted by negative cash margins, which led to a slowdown in capacity. So how should we think about the magnitude of upside for the Silicones business and what you're seeing in terms of that cadence of capacity additions, which were pretty prevalent in the past couple of years?

Jeffrey L. Tate
Chief Financial Officer

Yes. We've actually seen that pace slow down in terms of those additional capacities coming on stream. I think a large part of that is because a lot of that additional capacity is coming out of China. And right now, what you're seeing is a number of those commodity siloxane competitors in Asia have negative cash margin, right? So, with those negative cash margins, we're starting to see more of that slowdown in capacity additions that will help improve operating rates over time as we continue to absorb a lot of the additional capacity that's on stream right now.

Now specific to Dow, we see ourselves in a really good position because we're continuing to invest in more of the specialty silicones, which will reduce our exposure to the upstream siloxanes. And that's a position that we're in to be able to take advantage of some of those mega trends from an end-use market standpoint, such as energy transition, circularity and EV and AV automotive shifts. And so, we're really well-positioned with some of the investments that we are making.

Patrick David Cunningham
Citigroup Inc., Research Division

And then maybe just putting it all together on the 2025 outlook, can we talk about some of the things you have in your control? I think you mentioned you have some of the maintenance add-backs this year, but there's also some pretty attractive near-term growth investments. So, if you could maybe just unpack those, what do we need to see from a cycle standpoint for you to accrue that full benefit, that would be helpful?

Jeffrey L. Tate
Chief Financial Officer

Yes. So, when we think about our '24 to '25 earnings trajectory, what we've called out as a $1 billion of EBITDA improvement, and that's going to come from three primary areas. One would be not having the unplanned event impact that we had in 2024. So, the Glycol-2 restart that we had in the second half of this year, as well as the Texas-8 cracker being back up in operation. That will deliver, Patrick, at a minimum $300 million of add-back of EBITDA out of that $1 billion that we've committed to for 2025.

Second thing I would note is that we expect at least 3% of volume growth year-over-year. And we think about what I just highlighted for Packaging & Specialty Plastics and being able to grow at least 1.2x to 1.4x greater than GDP, looking at what we just discussed around silicones and what we expect in that space from an end-use application perspective, and then looking at what we're seeing in our Dow Industrial Solutions business as well. We feel like we're well-positioned to be able to capture that 3% volume growth year-over-year, which would give us another $400 million of EBITDA growth.

And then the third thing I would note are a number of the growth investments that we're making across all three of our operating segments, highlighting in Packaging & Specialty Plastics, additional capacity coming on stream in the U.S. Gulf Coast for Polyethylene and Functional Polymers, which gives us a chance to absorb some of the ethylene leak that we have on the U.S. Gulf Coast, while at the same time, taking full advantage of our low-cost position that we have in that area as well.

And just as a reminder, the Functional Polymers provides a great margin uplift for us as well. So going back to that differentiated product mix, which really serves us well.

Moving to II&I, that segment, making additional investments around alkoxylation and taking advantage of the food, pharma, home & personal care space and the volume growth that we're continuing to see in that area. And then as I previously mentioned, the specialty silicones for our Performance Materials & Coatings area and being in a really good position to focus on the megatrends around circularity of sustainable materials.

So, across our three operating segments, we would expect to be able to generate through the growth investments at least an additional $300 million. So, it's going to be a really good mix of things that Dow is controlling that are very well aligned with our strategy, positions us well as we start to see some market improvement as well as some of the other things that, from a macro perspective, we're still being very balanced in terms of what the expectations are for year-over-year volume growth.

Patrick David Cunningham
Citigroup Inc., Research Division

Got it. And then obviously, some exciting additions, things that are impacting next year, but longer dated, shifting to the Decarbonize & Grow Strategy. You have the Alberta net-zero projects with the ethylene derivatives complex. How is construction progressing? What are your expectations for this, where it comes and sits and ends up being in terms -- when the PE cycle maybe peaks -- and on the service level, a pretty substantial ramp in CapEx. So, it would be good to highlight what makes this economically attractive?

Jeffrey L. Tate
Chief Financial Officer

So a couple of things there to unpack. First of all, this provides the world's first cracker complex that will have net-zero Scope 1 and Scope 2 emissions, and we expect it to deliver $1 billion of earnings upside by the end of the decade. So we're well-positioned there.

There are going to be two phases to the project. First phase will start up in 2027, 1,300 kta and the second phase will start up in 2029 with an additional 600 kta. From a CapEx standpoint, gross CapEx will be $6.5 billion. But from a net standpoint, it would be $5 billion because we're going to get $1.5 billion in incentives from the government there in Canada, and we'll get approximately 80% of those incentives between now and the end of the decade that really follows the spending trajectory that we'll have based on construction.

And when you think about the returns on this particular project, we always like to put it in the context of our Texas-9 cracker that we started up in 2017. And as a reminder, the return on invested capital that we were able to get from that project was over 15%. And the same project team that executed and completed the Texas-9 project, it's the same team that's working on the Fort Saskatchewan project for the Path2Zero. So, we're transitioning a lot of the expertise, experience and know-how on the Texas-9 cracker that has been really successful for us, and it's probably the best running fleet, not only in the Dow fleet, but in the industry at this point, and we're proud of that.

So that same team of experts is working on Path2Zero for us, which gives us greater confidence in our ability to execute. From a risk management standpoint, we are meeting with that team, we being and myself, Jim and the Executive Committee of the Company, we meet with that project team every week to go through key milestones and ensure that we're on track from a budget standpoint as well as from a scheduling perspective, and we are.

One of the questions that we get, and I think as part of the spirit of your question is how do we offset some of the decarbonation costs that come along with this project? Well, part of it is the industry-leading capital efficiency that I mentioned as well as the Alberta feedstock advantage that we continue to have there in the region in addition to those government incentives that I mentioned earlier.

Patrick David Cunningham
Citigroup Inc., Research Division

And just a follow-up on that. I mean I think you have much longer-dated goals in terms of decarbonizing the rest of your asset footprint. And what do you need to see? Is it just government incentives, to maybe start looking at decarbonizing assets on the Gulf Coast? Is this kind of like a test case to see how it plays out? Or how does that progress over time?

Jeffrey L. Tate
Chief Financial Officer

Yes, part of it is understanding what types of incentives we will get from the local municipalities, also having, again, a low-cost position from a feedstock perspective, while at the same time, looking at across our asset fleet when will we need to make sizable and significant investments in some of the existing assets. And that will all be part of the criteria in our decision-making and making a determination of where that next Path2Zero or decarbonization investment may be.

Patrick David Cunningham
Citigroup Inc., Research Division

And then just maybe to touch on the circular strategy for recycled plastics. You guys have been active acquiring both mechanical recycling assets as well as advanced recycling technologies. Just remind us again your sort of long-term target there. What's your level of comfort? It's still early days, but how is it progressing right now?

Jeffrey L. Tate
Chief Financial Officer

It's progressing well. As a reminder for the audience, for us, our commitment is 3 million metric tons of circular renewable solutions annually by the end of decade, so by 2030, and we're targeting at least $500 million of additional earnings and EBITDA as a result of the investments that we're making from a Transform the Waste perspective.

For us, we see partnerships as a tremendous way to be able to make the progress and meet our commitments over time. And so, you may have noted that we have the Circulus acquisition that we made earlier this year, which positioned us well from a mechanical recycling standpoint and that involved two facilities that we acquired in North America, one of those being in Oklahoma and the other one being in the state of Alabama.

And what's unique about Circulus from our perspective is that it really provides a very broad access and attractiveness when you think about select-grade packaging applications for us. So, looking at not only being able to get that volume, but also the end-use application targets around that particular acquisition made it really, really attractive for us, and we see it being very accretive for us as well.

Patrick David Cunningham
Citigroup Inc., Research Division

We've got a couple of extra questions, but if there are any questions from the audience, I'm happy to.

Why don't we kind of put it all together here. I think on the one hand, I think investors see some of the elevated CapEx over the next several years, but you've done a good job highlighting some of the incentives you have unique-to-Dow cash flow levers. And can we just talk about the balance of capital allocation strategy beyond that? Like now that you have substantial investments in place, is there any opportunity to raise the dividend? Is there any opportunity for M&A going forward?

Jeffrey L. Tate
Chief Financial Officer

Well, from our vantage point, M&A will not be a sizable lever that we pull to achieve our growth targets and growth commitments. We'll have small bolt-on acquisitions, and a lot of those will be in areas that will give us more exposure to higher-growth, higher-margin markets, while at the same time, helping us to satisfy our commitments around Transform the Waste and circularity. So, from that vantage point, we're in a good position in terms of being very targeted and very intentional around our M&A activity.

When we look at our capital allocation priorities and our dividend, we feel really good about, obviously, we've got an attractive dividend yield today. If you look over the past several years, we've been able to remunerate at least 90% of our net income back to our shareholders between both the dividend and share buybacks. We remain committed to at least 65% in total between the dividend at 45% and share buybacks at 20% for collective net income back to our shareholders over the economic cycle.

And so, from that vantage point, we're going to stay very consistent with our capital allocation priorities that I laid out earlier around safety and reliability, maintaining that strong balance sheet, which we're really proud of.

If you look at our balance sheet today, it's in the best position it's been in several years, especially in a down cycle. And so that really again positions us well to be able to make these investments countercyclically in terms of the ramp-up in CapEx that you mentioned, but still be in a position to satisfy our other capital uses of capital.

Patrick David Cunningham
Citigroup Inc., Research Division

Great. Thank you, Jeff, and please join me in thanking Jeff Tate.

Jeffrey L. Tate
Chief Financial Officer

Thank you, everyone. Appreciate it. Thank you, again.