

**Dow Inc. NYSE:DOW**

# **Company Conference Presentation**

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# Call Participants

## EXECUTIVES

**Jim R. Fitterling**  
*Chair & CEO*

## ANALYSTS

**Vincent Stephen Andrews**  
*Morgan Stanley, Research Division*

# Presentation

## **Vincent Stephen Andrews**

*Morgan Stanley, Research Division*

Thank you, and good morning, everyone, or good afternoon, if you're on the East Coast. Next, we have Dow, and we're pleased to have Jim Fitterling, the CEO of Dow, with us today. I'm going to read some disclosures first and invite you to see the Morgan Stanley research disclosure website at [morganstanley.com/researchdisclosures](https://morganstanley.com/researchdisclosures). And if you have any questions, please reach out to your Morgan Stanley sales representative.

I'm also going to let you know if you don't already know that there are some slides on the Dow website on the Investor Relations section of the site that you can refer to during this fireside chat. And I think Jim is going to make some prepared -- some opening remarks and address those slides. So I'll turn it over to you, Jim. Thank you.

## **Jim R. Fitterling**

*Chair & CEO*

Yes. Good morning, Vincent. Thank you, and welcome, everybody. Thanks for being here. Before we get into Q&A, I'd like to share some insights as it relates to our key end markets as well as some of the progress that we're making on our near-term actions since earnings. This includes our cost reduction activities, acting with our proven best-owner mindset, adjusting our CapEx spending for the year and the protection and improvement of our margins as we navigate the prolonged industry downturn.

If you look at Slide 2 on that deck that Vincent mentioned, as we head into the back half of the year, our view of the global economy remains relatively consistent with what we've seen for the last few quarters. Many of our end markets continue to face challenges, which has delayed the recovery and continues to pressure industry earnings. Despite the largely unchanged macro environment, we expect our third quarter operating EBITDA to be higher than second quarter and in line with the current Wall Street forecasts.

While we anticipated a positive polyethylene price settlement in the Americas, supported by industry trade dynamics, we ultimately saw prices roll over for the last 2 months. Additionally, given the current market conditions, we recently adjusted the turnaround schedule at one of our U.S. Gulf Coast crackers. And as a result, the associated costs for that will be spread into 2026 in the first half of '26 when the maintenance activity will be completed. That decision is another example of the actions that we're taking to minimize expenses where possible and optimize our global network.

And we expect the tailwind in the third quarter from our in-flight actions to reduce costs. We're seeing a few additional positive developments in the marketplace, which should provide some benefits to Dow. This includes greater clarity on U.S. trade deals, including the recently announced framework between the U.S. and the European Union. As these trade deals unfold, greater certainty across the value chain should create an environment where our customers start to invest again ahead of consumer demand.

There have also been some recent announcements from countries that are taking additional actions to address overcapacity challenges. So in summary, while the global macro conditions remain largely unchanged, we're encouraged by the early positive developments that we're beginning to see take hold. If you look at Slide 3, we have several in-flight actions to support both our near-term cash and our longer-term operational improvements. We announced earlier this year that we would be reducing Dow's total enterprise CapEx for 2025 to approximately \$2.5 billion, which is \$1 billion below our original plan of \$3.5 billion. This is largely attributed to our decision to delay construction at our project in Alberta until market conditions improve.

We will provide an update on that project by year-end, and I'll be happy to take questions that you have today. And consistent with our best-owner mindset, we also completed 2 non-core product line divestitures totaling approximately \$250 million at attractive EBITDA multiples of around 10x. We're also on track to deliver at least \$1 billion in targeted cost savings on an annual run rate basis by the end of '26, and we've increased our expectations for this year's savings to approximately \$400 million versus our original target of \$300 million.

In addition, we continue to make solid progress on several unique-to-Dow items that support our near-term cash generation. In May, we finalized our strategic partnership with Macquarie Asset Management for the sale of a minority equity stake in select U.S. Gulf Coast infrastructure assets, receiving approximately \$2.4 billion in initial cash proceeds from the transaction. And then earlier this quarter, at the end of August, Macquarie exercised an option to increase their stake to 49% for an additional \$540 million, which increases that total cash proceed to approximately \$3 billion for Dow this year.

The additional cash payment was received well ahead of the November deadline when the option would have expired, which is a clear indication of the value that both Dow and Macquarie see in this new growth partnership. That value is evidenced by the growth that Diamond is already delivering with announced agreements so far with Agan, which is a circular economy customer and Third Pillar Solar.

We also expect to receive approximately \$1.2 billion in cash for damages related to the litigation with NOVA Chemicals regarding our joint ethylene cracker. In total, we expect these actions to provide more than \$6 billion in near-term cash support. And in addition to these items, we continue to proactively drive other near-term levers. This includes the execution of a debt-neutral \$1 billion bond, which we completed in the first quarter, and that extended our material debt maturities beyond 2027. And then earlier this month, we completed an additional debt-neutral \$1.4 billion bond to take advantage of very tight credit spreads, which provides added flexibility and support while maintaining our commitment to an investment-grade credit profile.

We also continue to work on optimizing working capital, which we expect to be a release of cash in the second half of the year compared to the first half. And as we've consistently demonstrated, we'll continue to take further actions if and when they're needed.

Closing on Slide 4. Our priorities are clear that we're continuing to execute several strategic moves to support higher earnings, improve our competitive cost position and ensure Dow wins as the industry recovers. This includes continuing to shift our product portfolio to higher-growth end markets like food packaging, electronics, home care and pharma. And we've added downstream capacity in both our Packaging & Specialty Plastics and Industrial Solutions businesses, which further capitalize on our light cracking footprint in the cost-advantaged Americas.

This capacity helps us to maximize the value of both our ethylene and ethylene oxide by taking advantage of the full benefits of integration, and we'll begin to see EBITDA benefits for both of those investments in the third quarter and beyond. Also in July, we announced the shutdown of 3 upstream assets in Europe in response to the challenging cost and demand landscape in the region. Each of these represents a meaningful portion of our regional capacity, which is either not fully integrated, resulting in excess merchant sale exposure or is high on our cost curve where we have better options to supply derivative demand and optimize margins. The shutdowns will be cash accretive and are expected to result in an annual EBITDA uplift of \$200 million by 2029.

Benefits will begin in '26, and we expect to achieve half of that by 2027. Dow's diverse portfolio and purpose-built asset footprint position us to capture demand in attractive end markets that grow above GDP, and this is evidenced in our annual benchmarking results, which detail our track record of generating higher polyolefin margins than our peers over the cycle.

And lastly, we anticipate that a reduction in interest rates will promote a recovery in end markets, which have been depressed for some time, such as housing and durable goods, which are highly rate sensitive and tied to affordability. As I've outlined today, we remain committed to continuing our track record of operational and financial discipline, executing near-term actions to maximize shareholder value and navigating the current environment, all to better position Dow for higher shareholder returns. And with that, I'll be happy to take your questions, Vincent.

# Question and Answer

**Vincent Stephen Andrews**

*Morgan Stanley, Research Division*

Thank you, Jim. That was very comprehensive. And maybe the first place to start would be just unpacking the polyethylene market during the quarter. Obviously, we see the prices rolled over flat. But as you assess what's going on in the market, do you think that was a function of demand softening? We're hearing a lot about customers across the industry are already starting to back off and manage for cash earlier than normal. So do you think there was a little issue, a little less demand or some inventory has built, so maybe the industry produced a little bit too much? Or how do you assess how the July and August settlements played out?

**Jim R. Fitterling**

*Chair & CEO*

Yes. From our perspective, volume has been okay. I don't want to characterize it as robust, but it's been positive. And export volumes have been moving well. So the fundamentals were there in our view that we should have seen a price increase. I would have said price increase in July, more than August. And I think the market is setting up for some positive action in September. We saw a price increase in June after -- if you look at second quarter, second quarter was pretty rocky because you had the announcement of Liberation Day. And for those that are not familiar with our market, it essentially froze our markets, much like COVID froze the markets at the beginning of COVID.

It frozen for the month of April. Nobody was willing to make commitments to export material, whether it was China exporting to the U.S. or U.S. exporting to China, everything just stopped. But by the time things started to -- the dialogue started to continue and people started to understand it, things started to move then in the month of May, and we saw price increase in June. We didn't have any of that in the third quarter. So we've seen none of that kind of activity. Actually have seen pretty stable volumes, really good export capabilities and the cost positions in the U.S. are low. So operating rates on U.S. Gulf Coast ethylene crackers are 90-plus percent. And because of the tremendous cost advantage, I think they will stay that way.

So the fundamentals are there. ACC looks at inventories that are in stock. They've been running 44 days. Historical average is somewhere around 49 days. There's no sign that there's a massive inventory build. There's no sign of anything getting locked up or China falling out of the market to the point where it backed up exports. So I think the fundamentals are there for the right kind of price movement.

However, it is -- we see the data just like everybody else, inflation is having an impact on demand and people are very cautious right now. There's a lot of people that are sitting on the sidelines and taking no risk. And I think that's what's leading into, say, the end of the month or the end of the quarter. Special deals that happened right at the end of the quarter that then undercut some activity.

**Vincent Stephen Andrews**

*Morgan Stanley, Research Division*

So yes, so obviously, been a peculiar year. So as we think about going into 4Q, we have to get through hurricane season. That's obviously a wildcard and that might contribute to pricing in September. But how are you thinking about the fourth quarter? Do you think we're going to have the typical seasonality? Typically, we do get prices coming up in the second and third quarter and then we give a little bit back in 4Q and then traditionally kind of get it back in 1Q. So because we didn't really see it during the middle of peak season, is there just less to give back? Or does the industry need to manage production into the fourth quarter? Or how should we think about that?

**Jim R. Fitterling**

*Chair & CEO*

There's -- right now, there's nothing to give back. I mean from a variable cost position, we're at that level where it doesn't make any sense to continue at this rate. I do think there's some momentum that we'll be able to get some pricing up in September. And then a lot will depend on what happens to demand in fourth quarter. At the end of the year, usually December is the month that really slows down. October, November typically are fairly normal months. But December is the one where if anybody is trying to manage inventories, they'll do it at the very end of the year.

And I just don't have good -- that far out, I couldn't give you good visibility at this point. I would say the end markets that I mentioned, food and specialty packaging in the durable side of things, so infrastructure related like high-pressure pipe, any of the higher

molecular weight polymers that are in our functional polymers business, like our wire and cable business, very strong demand driven by tech, AI, data centers, electric transmission, that's all going well. You're seeing some softness in obviously, wind, which has some derivative impact. But solar, I think, continues to hold up pretty well. Maybe some pressures here in the U.S. market, but globally, there's pretty good solar demand that's still out there.

**Vincent Stephen Andrews**  
*Morgan Stanley, Research Division*

Okay. And then maybe as we look into '26, we are starting to see continued supply reform rationalization depending on how you want to frame it. We have maybe some things percolating in China, which I'd love to hear your view on. You've had an announcement out of South Korea, some significant reductions in that market potentially to come. Obviously, you mentioned what you're doing in Europe and others are doing similar things.

When I total it all up, it's helpful. It's moving us in the right direction, but it's not exactly a game changer tomorrow. We definitely still need help on the demand side of the equation. You mentioned maybe what's going to happen with interest rates finally, right? We've all been waiting for 3 years now to get some relief. So if we look at both sides of the equation, do you think we're going to see anything material out of China. Does what South Korea is doing, does it matter outside of South Korea? Or is that just going to help the sort of regional Asian market? How are you assessing that?

**Jim R. Fitterling**  
*Chair & CEO*

Yes. And so I would say on the ethylene side, we'll stick with that for a minute. The announcements out of Japan and Korea, I think, will happen. China has built a lot of capacity, and they've been under a gun to get capacity up by 2030. They would say for reasons of CO2 commitments and climate. I would say that's part of it and geopolitics is probably another part of it. But they have a cost position that's better than Korea and Japan. And so I think that's going to drive some of that capacity out.

That announcement is probably on a global basis is about 1% to 2% of global capacity. So on its own, not a huge number. And then if you look at Europe, almost everybody that produces in Europe has announced capacity reduction in ethylene in the range of 15% to 20% of the European ethylene capacity. That's getting you more like 5% to 7% of global ethylene capacity. When you put those 2 together, you're starting to get close to a 10% uptick in operating rates just from capacity reduction, which is good. And that's before you get into demand increase. And I think we're in the third year of the industry slowing down.

There's no there's no signs of any stocking happening, which could happen at these prices. I don't see that to your point, people are managing cash. I also don't think there's a huge stock out there and a huge destocking that has to happen either. It's more hand to mouth, which is why I think people are saying they have less visibility to what's happening. But when that demand does, I think the capacity rationalization is coming. It typically in a naphtha cracker would take a couple of years because there's a lot of -- there are a lot of byproducts that come off those crackers and a lot of deals that you have to unwind and make sure that you're not stranding a customer that's on the other end of that. But they do happen. And so now until the end of 2027, I think you're going to see that capacity come off. And then you're going to start to see the demand pick up.

Confidence is one of the biggest things that's missing right now. The trade deals, just the volatile nature of an announcement of a deal backing off, tariffs on again, all of that's just got people sitting on the sidelines. They're not making investments. And we have to consider as well that in the infrastructure-related industries, housing and construction, when they're moving, they're also driving a lot of demand, whether that is demand for raw materials or whether that demand is for oil and diesel and other products that they need to build, that has kind of a double negative effect. So when that starts to roll, then you get a couple of layers of demand increase that kind of tighten things up and then you'll start to see real pricing power and momentum come back into it.

I think the trade deals are moving positively. I don't know that we'll know exactly what China is going to do on capacity until we see how the U.S.-China deal works out. I would guess that they'll want to land that before there's any firm commitments. So far, what we've seen actions in things like aromatics chain, which is tremendously oversupplied. We've seen actions in a PDH unit that's been delayed and we think canceled. We've seen off and on actions in some other areas. Nothing specific yet in ethylene, but a lot of the ethylene capacity is relatively new and younger. There's some older, smaller units, and they would probably be at risk.

**Vincent Stephen Andrews**  
*Morgan Stanley, Research Division*

Okay. Now if we think about the demand side of the equation, and obviously, it remains to be seen, both the pace and the extent of rate cuts, but it seems likely something is going to happen next week. I kind of think about it 2 ways. I think there's obviously the end

market stimulus is affordability of housing and autos and other things that have been constrained over the last 3 years. That certainly is easy to understand how that could improve. But I also wonder whether between you and the end product, there is a big supply chain, and there are lots of different folks that have to manage inventory levels of various products that have Dow components in them, full or in part. So do you think over the last 3 years, as the cost of carrying inventory increased massively, right, versus where it was during COVID and even before COVID, right, when rates were certainly 0, but they were nowhere close to where they are today.

So do you think there's also a scenario where as we get into '26 and '27 and rates are normalizing at whatever that neutral level winds up being, that there is actually going to be -- I don't want to call it a restock, but just sort of a normalization of flow of product within all those other layers between yourself and the final customer. Sometimes to me, it feels like a lot of supply that would normally -- a lot of production would normally be floating around the world somewhere has gotten backed up to the chemical company.

**Jim R. Fitterling**  
*Chair & CEO*

It does. And there were some good articles written coming out of COVID about the bullwhip effect and how it works through the supply chain. And really, sometimes we're 2 or 3 layers below that final end-use demand. We try to be out understanding what's happening at those end-use customers, whether it's auto OEMs or the packaging and food companies, the retailers and when it hits our -- comes back to our shelf. But there is that kind of a lag effect and a contagion effect. And we saw during COVID when the demand for everything pulled up at once. It's kind of an unusual situation because all markets are shut down and then all markets open up.

And when that pull occurred, you had the combination of the inability to mobilize labor fast enough to get the demand out. You had supply chains and shipping lines that had to get rerouted again because everything had been slowed down and you had raw materials and then you had prices escalating. And so everybody was just trying to catch that wheel. That created just an unbelievable spike in demand and earnings. We went from \$12.5 billion of EBITDA, which was peak in any form of Dow before after DowDuPont, there was peak earnings, but that was every every single value chain that we had peak at the same time. So that can happen when you get that kind of a pull.

I don't expect that, but I do expect because we're third year into this and everybody is managing hard that when they start to see their cash flows improve, they don't necessarily have to go borrow money to build in that inventory. They can do it off their operating cash flows and then you're going to see a little bit more risk taking come into it. And they typically tend to try to get back to where they have the flexibility to take that incremental customer order. Today, they can do it because they know they can go to the market and get product. But in the future, they may not be so sure and they'll take that inventory.

**Vincent Stephen Andrews**  
*Morgan Stanley, Research Division*

So with all that said, and I know you're going to give us the fulsome update on Alberta after the end of the year. What is the team working on between now and then other than just sort of watching the market to sort of assess how you're going to move forward or further delay the project?

**Jim R. Fitterling**  
*Chair & CEO*

Sure. First, I just want to say on Alberta, we still think it's a good project. It's a low-cost project. Because of the feedstock cost advantage and because of just the tremendous scale that we already have there, we're adding additional capacity there. That incremental capacity leverages a lot of existing infrastructure that's at that site. So it is going to compete with our Texas-9 investment down in the Gulf Coast, which has been a fantastic investment.

It's just a matter of market timing. When you bring up -- when you ramp up the construction is when the big spend happens. And when you bring these projects up, the timing to the peak of the market is very critical for the IRR on the project. So what we didn't want to do was try to be bringing that up originally or the plan was to bring it up in '27. In this market environment, that doesn't feel like the right timing. But to ramp up the construction when we can bring it up commensurate with the market coming back. And so that -- we've announced a 1-year delay. I think a 1- to 2-year delay time frame is what we're looking at. And that, we believe, balances getting the engineering work done, which is what we're doing right now and getting the long lead equipment ordered so that we're -- we've got that on site, but not starting the major construction until we're ready to get into that and execute quickly and get it online.

Then the other factor is obviously working with our partners and our midstream partners and Linde, who's building out the hydrogen complex. And we've got good ongoing dialogue with both of them. We've been -- we've always, from the beginning, been managing the engineering and the labor part of things kind of hand in glove with Linde so that we both benefit from the efficiencies of that. And

obviously, the midstream partner is involved in both the supply of the ethane as well as the sequestration of the CO<sub>2</sub>. So they're very critical, and we're navigating that.

Canadian government support is still there, and that's another big reason. And also the downstream customer demand is very positive. We've already announced one deal for low carbon ethylene and the ethylene derivatives that come off of that. and we have several others under negotiation. So there's a strong desire, especially for global customers to be able to access that material and tap into that market.

So we will have a fulsome update at the end of the year. It will have an impact then on what we think our 2026 CapEx is going to be and when we think the ramp-up on construction will be, and we'll come back to that before the end of the year.

**Vincent Stephen Andrews**  
*Morgan Stanley, Research Division*

Okay. Maybe one last one on my side, just to talk about the feedstock markets a little bit. We've had a lot of volatility in ethane this year within a reasonable range, and now we're shifting into a period of an increase in LNG exports. How do you think that's going to affect the natural gas liquids market over the next couple of years?

**Jim R. Fitterling**  
*Chair & CEO*

Well, in general, as natural gas production goes here, because the United States benefits from having the richest natural gas, the richest in natural gas liquids, it typically makes more available. Now whether it all gets fractionated out and there's enough incentive to do that is a question, but it's typically there, and it can be pulled out.

And when frac spreads get too high, typically, there's more capacity comes on to be able to strip that out and monetize it. So I think long term, the way we look at it, and we try on oil and gas markets, we try not to chase the tail of the market. We have to take long-term views and long-term positions. Our long-term view is the U.S. is plentifully supplied on natural gas. There's going to be plenty of ethane available and propane for that matter. It's just that propane has more competing end markets and ethane really only has 2 places where it can go. It either stays in the gas for BTU value or gets stripped out for chemicals production.

So typically, that gives you a little bit of a governing effect on the pricing of it, and that's what's led to the prices that we have today. If gas goes up, gas goes up like it does in the wintertime, yes, you see some impact on higher ethane costs, but typically, that will reverse itself. And the gas price in the wintertime is really a function of the storage capacity. And so until we see changes in that, I think that is going to be normal -- kind of normal pattern that we see.

We're seeing competing demand, obviously, for electricity. Most of the near-term electricity for tech, AI is going to be supplied by natural gas power. And so that's going to compete onshore demand. We'll compete with that LNG export. There are other producers out there for LNG that will put a governor on the market for what the LNG price is going to be. And then the rate-limiting step for all of it is how fast can you build that capacity because you're competing with the same engineering and shop floor capacity that we are when we're building something like Alberta.

So LNG, compressors and other things are built by the same manufacturers. You've got to be in that line. You've got to have that line to the long lead equipment. You've got to have the engineering teams working on those generations. You got to have your permits. All of that is a very highly orchestrated dance. And I think the U.S. is going to be tremendously advantaged gas feedstock position, Canada likewise for a long time. And that's our big advantage in ethylene and polyethylene.

**Vincent Stephen Andrews**  
*Morgan Stanley, Research Division*

Okay. Are there any questions in the audience? Anyone? Anyone? Okay. Well I think we'll leave it there then Jim. Thank you very much.

**Jim R. Fitterling**  
*Chair & CEO*

Thank you. Good to see you.

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