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PRESENTATION

Operator

Good day, and welcome to Dow's Q1 2022 Earnings Call. (Operator Instructions) Also today's call is being recorded.

I would now like to turn the call over to Mr. Pankaj Gupta. Please go ahead, sir.

Pankaj Gupta *Dow Inc. - VP of IR*

Good morning. Thank you for joining Dow's first quarter earnings call. This call is available via webcast, and we have prepared slides to supplement our comments today. They are posted on the Investor Relations section of Dow's website and through the link to our webcast.

I am Pankaj Gupta, Vice President of Dow Investor Relations, and joining me today on the call are Jim Fitterling, Dow's Chairman and Chief Executive Officer; and Howard Ungerleider, President and Chief Financial Officer. Please read the forward-looking statement disclaimer contained in the earnings news release and slides.

During our call, we will make forward-looking statements regarding our expectations or predictions about the future. Because these statements are based on current assumptions and factors that involve risks and uncertainties, our actual performance and results may differ materially from our forward-looking statements. Dow's Forms 10-Q and 10-K include detailed discussions of principal risks and uncertainties which may cause such differences. Unless otherwise specified, all financials, where applicable, exclude significant items.

We will also refer to non-GAAP measures. A reconciliation of the most directly comparable GAAP financial measure and other associated disclosures is contained in the Dow earnings release and in the slides that supplement our comments today as well as on the Dow website.

On Slide 2, you will see our agenda for the call. Jim will begin by reviewing our first quarter and operating segment performance. Howard will share our outlook and modeling guidance as well as how Dow's competitive advantages are driving resilient earnings and cash flow while positioning the company for value growth. Jim will then provide an update on how our in-flight actions raise our underlying mid-cycle EBITDA above pre-pandemic levels while also advancing on our path to zero carbon emissions. Following that, we will take your questions.

Now let me turn the call over to Jim.

James R. Fitterling Dow Inc. - Chairman & CEO

Thank you, Pankaj. Beginning on Slide 3, we entered our 125th year with global scale, a differentiated portfolio, unmatched feedstock and derivative flexibility and a track record of operational excellence, all of which enables us to continue to deliver more resilient earnings and cash flow in a variety of economic and geopolitical environments and positions us to deliver mid-cycle earnings above pre-pandemic levels.

This is reflected in our first quarter results. Team Dow delivered top and bottom line growth, both year-over-year and sequentially. We capitalized on end market demand strength across the breadth of our diverse portfolio and mitigated the impacts of rising raw material and energy costs.

Year-over-year sales growth was 28% with gains in every operating segment, business and region. Sequentially, sales increased 6%, driven by gains in Performance Materials & Coatings and Packaging & Specialty Plastics. Local price was up 28% year-over-year, reflecting gains in all operating segments, businesses and regions. Price was up 2% sequentially, led by silicones and polyurethanes.

Volume increased 3% year-over-year with gains in all operating segments and in the United States and Canada. Sequentially, volume was up 5%, reflecting strong demand for silicones and packaging applications. And we continued our digitalization drive, marking an important milestone for digital sales in the first quarter as we reached a \$1 billion monthly run rate. Operating EBIT increased \$865 million compared to the year-ago period with gains in all operating segments.

Despite rising raw material and energy costs, we effectively leveraged our industry-leading feedstock and derivative flexibility in a very dynamic environment. And higher operating rates compared to the impact of Winter Storm Uri in the year-ago period enabled us to capture better end market demand.

We continue to generate significant cash flow of \$1.6 billion in the first quarter, up \$1.8 billion year-over-year due to increased earnings and no voluntary pension contributions in the current period. Shareholder remuneration totaled \$1.1 billion in the quarter, including \$513 million through our industry-leading dividend as well as \$600 million in share repurchases. Additionally, we recently announced a new \$3 billion share repurchase program. This was a direct result of our performance and our balanced and disciplined approach to capital allocation with attractive shareholder remuneration.

Before I address our operating segment performance, on behalf of the Dow team, our thoughts are with the people of Ukraine and their family and friends around the world. Dow continues to prioritize the safety and security of our colleagues in Ukraine and Russia by providing evacuation support, financial assistance and shelter as well as humanitarian aid to refugees in the region.

From a business perspective, our presence in Ukraine and Russia represents approximately 1% of annual sales and a much smaller percentage on the bottom line. We fully support and are complying with sanctions implemented against Russia, and have significantly reduced our operations and stopped all investments in the country and are only supplying limited essential goods.

To help diversify Europe's energy supply, we also recently announced that Dow is taking a minority stake in the Hanseatic Energy Hub, which is developing a new zero carbon emissions LNG import terminal. The terminal will be colocated on Dow's site in Stade, Germany and will satisfy up to 15% of Germany's current natural gas demand, helping enable a stable, cost-effective and sustainable supply of energy to Europe in support of the region's economy, Dow's business interests and our communities and our employees.

Moving now to our operating segment performance on Slide 4. In the Packaging & Specialty Plastics segment, operating EBIT was \$1.2 billion, up \$6 million year-over-year with operating EBIT margins down 400 basis points as price increases in the United States and Canada and Latin America were partly offset by rising raw material and energy costs in all regions. Strong end market demand drove volume up 4% year-over-year. Sequentially, operating EBIT was down \$208 million and operating EBIT margins declined by 390 basis points primarily due to higher raw material and energy costs in Europe.

Moving to the Industrial Intermediates & Infrastructure segment. Operating EBIT was \$661 million, up \$335 million year-over-year as

operating EBIT margins increased 560 basis points, primarily due to strong price momentum in both businesses and volume gains of 1%. Sequentially, operating EBIT was up \$66 million, and operating EBIT margins increased 150 basis points as strong prices and lower planned maintenance activity in the core business offset higher raw material and energy costs.

And finally, the Performance Materials & Coatings segment reported operating EBIT of \$595 million compared to \$62 million in the year-ago period. Operating EBIT margins increased more than 1,600 basis points due to strong price gains and an 8% volume increase on improved supply availability and robust stand for silicones in personal care and high-performance buildings and demand for architectural coatings. Sequentially, operating EBIT improved by \$300 million on price gains and lower planned maintenance activity.

I'll now turn it over to Howard to review our modeling guidance for the second quarter.

Howard I. Ungerleider Dow Inc. - President & CFO

Thanks, Jim. Turning to Slide 5. In the second quarter, we expect ongoing underlying demand strength across both consumer and industrial end markets. Despite elevated inflation, consumer spending continues to grow and balance sheets remain healthy with household debt service levels at some of the lowest levels in the last 30 years. Industrial activity also remains robust with global manufacturing PMI continuing to point toward expansion.

We continue to monitor dynamics impacting the operating environment, including geopolitical activity, inflation, COVID and the pace in which global supply chain constraints are easing. Our talented team and advantaged operating model continued to position us well to navigate these impacts by leveraging our global footprint, scale and differentiated portfolio, combined with our cost-advantaged and suture feedstock and derivative flexibility.

In Packaging & Specialty Plastics, our order book remains strong, and we expect continued demand strength for packaging applications. Elevated feedstock costs, particularly for naphtha as well as tighter supply as we enter another turnaround season for the industry in the U.S. Gulf Coast and Europe should continue to support prices globally. That will begin a turnaround at our cracker and aromatics facilities in Louisiana, which are anticipated to be \$125 million headwind in the quarter. We will continue to leverage our advantaged shale positions in the Americas and our leading feedstock flexibility in Europe to help mitigate these costs.

In Industrial Intermediates & Infrastructure, we expect strong demand in industrial and energy end markets, coupled with the seasonal increase in construction and infrastructure activity in the quarter. Higher raw material and energy costs and tight supply and demand balances are expected to provide additional price momentum across our key value chains. We're also beginning turnarounds at our Stade and Terneuzen facilities, which are anticipated to be a \$100 million headwind sequentially.

In Performance Materials & Coatings, we're seeing robust consumer demand strength across our major end markets, including home and personal care, infrastructure and electronic applications. We continue to monitor the recent pandemic-related lockdowns in China and will remain agile to proactively manage the near-term impacts, particularly on local supply chains. In the coatings sector, value chain inventories remain tight, and we anticipate strong seasonal uplift in architectural demand as the Northern Hemisphere enters paint season. All in, we expect the second quarter to be in line with the prior quarter, excluding the total \$225 million impact from turnarounds.

We have also provided updated full year modeling input in the appendix of this presentation. Most notably and supported by our recent buyback announcement, we have lowered our year-end share count assumption to approximately 715 million shares as we remain committed to delivering attractive shareholder remuneration.

Moving to Slide 6. Our first quarter results once again demonstrate our competitive advantages, which have enabled Team Dow to navigate the dynamic macro environment, capture end market growth and continue to elevate our earnings potential. Our broad global reach with local presence, which includes the diversified manufacturing footprint is structurally advantaged and enables low-cost positions in each region.

About 65% of our production capacity is based in the Americas where we have a cost advantage from abundant shale-based feedstocks.

We also have industry-leading propane flexibility in Europe, ethane and natural gasoline advantages from our joint venture partners in the Middle East and global sourcing capability to support Asia with ethane advantage supply. Additionally, we are continuously leveraging our industry-leading feedstock and derivative flexibility to optimize margins.

Region by region and furnace by furnace, we are able to mitigate higher raw material and energy costs. This is particularly relevant in today's environment where Dow has more than 2 to 3x more propane flexibility than our European peers. And our derivative flexibility allows us to optimize our product mix to capture differentiated prices and margins compared to our peers. At the same time, our consumer-led portfolio and track record of innovation enables us to grow in attractive market verticals of packaging, infrastructure, consumer and mobility, expanding our share and growing with our customers, particularly for sustainability-led applications.

Growth across our end markets is expected to remain strong over the next several years with distinct demand drivers of sustainability, efficiency and connectivity, all of which are enabling growth rates above GDP. We're capturing these opportunities with innovative new products across our portfolio that not only feature advantage polyolefins, but also silicones, acrylics, cellulose, polyurethane systems, alkoxyates and elastomers.

For example, our DOWSIL carbon-neutral sealants increase design flexibility of smart buildings to reduce the environmental impact of new construction as infrastructure investments continue to ramp. The RENUVA Mattress Recycling Program converts used mattresses into raw materials for new building and home care applications.

Our ENGAGE photovoltaic polyolefin elastomers offer improved performance and extended life for solar applications. And Dow's patented ACCUTRACE Fuel Marker technology was recently selected by the European Commission to help facilitate fraud prevention, especially critical for monitoring fuel flows from sanctioned supply sources.

Altogether, these advantages enable resiliency, growth and support higher mid-cycle earnings compared to pre-pandemic levels. These advantages have been key to our 125-year history and will remain relevant for decades to come.

With that, I'll turn it back to Jim.

James R. Fitterling *Dow Inc. - Chairman & CEO*

Thank you, Howard. Now turning to Slide 7. We have a clear road map to advance our decarbonize and grow strategy, which we expect will deliver greater than \$3 billion in additional run rate EBITDA, while reducing carbon emissions by 30% by 2030. This begins with our continued investment in renewable energy, asset efficiency improvements and innovative carbon-efficient technologies like electric cracking and carbon capture.

Licensing our technologies will further expand our value pools, decarbonizing our assets and the industry. For example, our FCDh unit will reduce CO2 emissions by as much as 20% compared to other leading PDH technologies. And as we advance our electric cracking project in collaboration with Shell, we will incorporate even more renewable energy into our network.

In Alberta, we're progressing engineering and development activities for the world's first net zero carbon emissions, ethylene and derivatives cracker complex. This year, we plan to complete our partner agreements, which will put us on track for regulatory approval and a final investment decision in 2023.

We're also advancing plans to reduce CO2 emissions at sites in both Europe and in the Americas. A key part of our decision to advance profitable projects will be ensuring competitive subsidies and commercial contracts before final investment decision. These projects will provide the low to zero emission products that our customers increasingly demand to reduce their own carbon footprint. This is another demonstration of Dow's leadership in the transition to a sustainable world while driving earnings growth.

Turning to Slide 8. To that end, our near-term actions to decarbonize, grow the company and continue to improve our return on capital are well underway. In 2022, our in-flight growth programs remain on track to deliver a run rate of more than \$300 million in underlying EBITDA with a focus on targeting downstream and sustainability-led applications across all operating segments that will generate

strong returns.

In Packaging & Specialty Plastics, our FCDh unit in Louisiana is on track to start up in the fourth quarter of this year and will contribute more than \$75 million in run rate EBITDA with a return on invested capital greater than 15%, giving us the key proof point to accelerate the licensing of our technology.

In Industrial Intermediates & Infrastructure, our alkoxyates capacity and other efficiency investments are also on track to start up this year and in total, are expected to generate more than \$50 million in run rate EBITDA with returns greater than 20%. In order to support the accelerating demand growth across pharma, cleaning and energy sectors, today, we're proud to announce another series of alkoxyate investments in the United States and Europe.

These expansions maintain our current carbon emissions levels and are backed by supply agreements with leading consumer brands across a number of fast-growing end markets. All combined, these investments represent a 70% increase in our industry-leading downstream alkoxyates capacity over the next several years, targeting high-value applications where we're delivering 10% to 15% annual growth rates.

Lastly, in Performance Materials & Coatings, we're also executing a series of incremental downstream debottlenecking projects with more than 20 projects expected to be completed this year, collectively contributing approximately \$100 million in run rate EBITDA with return on invested capital of more than 20%.

All in all, by 2025, we're projecting a cumulative underlying EBITDA improvement of approximately \$2 billion, driven by projects like incremental high-margin polyethylene and functional polymers capacity to serve growing demand for flexible packaging, debottlenecking projects to enhance our mix toward polyurethane systems serving mobility and consumer applications, and new capabilities to formulate differentiated silicones, including silicone adhesives for next-gen electronics, mobility and infrastructure applications.

At the same time, we continue to decarbonize and deliver on our sustainability commitments by increasing our use of renewable energy, optimizing our assets to be more carbon efficient and driving continuous emissions reductions throughout our global asset base. Just one example, we will reduce our CO2 emissions by more than 350,000 tons, which is more than 15% of our 2025 emissions reduction target when we replace end-of-life steam and gas turbines at our Plaquemine, Louisiana site, with less capital intensive, higher efficiency and lower operating cost systems.

Overall, we expect these near-term actions to deliver \$2 billion in additional underlying earnings while reducing carbon emissions by approximately 2 million metric tons by the year 2025. And importantly, we'll do this while maintaining CapEx within D&A and continuing to target a return on capital of greater than 13% across the economic cycle as we invest in higher-return, lower-risk projects across the enterprise.

Turning to Slide 9. Dow has unique and resilient competitive advantages, a clear strategy to decarbonize and grow earnings, cash flow and return on capital combined with top quartile operational and financial performance. Our annual benchmarking update is published in the appendix of this presentation and demonstrates once again that we continue to deliver better results relative to our peers across many key financial performance metrics, including top quartile EBITDA margins, return on capital, free cash flow yield, shareholder remuneration and debt reduction.

Our commitment to industry-leading cash generation and shareholder remuneration have resulted in an attractive free cash flow and dividend yield above both our benchmarking peers as well as the broader S&P 500. Furthermore, strong execution against our higher return growth projects over the past several years has resulted in 3-year EBITDA growth and return on invested capital that is well above the peer median. And as we've outlined, our in-flight growth investments will deliver additional incremental earnings and cash flow upside with high-quality return on invested capital across the economic cycle.

To close on Slide 10, Dow continues to be well positioned to deliver higher mid-cycle earnings and cash flow above pre-pandemic levels

in both the near term and over the economic cycle. With our flexible and advantaged operating model, we're also able to effectively manage in a wide range of macro environments.

We continue to deploy our industry-leading cash flow in a disciplined and balanced way to maximize long-term value creation. Case in point, our new share repurchase program reflects the strength of our performance and confidence in our ability to continue delivering industry-leading cash flow.

We're making good progress on our decarbonized growth strategy, delivering incremental earnings by capitalizing on fast-growing demand for more sustainable solutions. Our in-flight actions are elevating our underlying mid-cycle EBITDA above pre-pandemic levels, all as we advance our return on capital.

Over the past 125 years, Dow has transformed from a small science start-up to the company that we are today, an industry leader with global scale, a differentiated portfolio and sustainable solutions that enable us to tackle some of the world's greatest challenges. Our ambition, purpose and capabilities continue to make Dow a great place to work for PhDs, engineers, chemists and leading talent from many different disciplines.

For the second year in a row, Dow has been recognized as the only material science company on the Great Place to Work and Fortune 100 Best Companies to Work For list. These advantages enable us to capture value growth while continuing to focus on delivering for our customers advancing our ambition and creating value for all stakeholders.

With that, I'll turn it over to Pankaj to open the Q&A.

Pankaj Gupta *Dow Inc. - VP of IR*

Thank you, Jim. Now let's move on to your questions. I would like to remind you that our forward-looking statements apply to both our prepared remarks and the following Q&A. Operator, please provide the Q&A instructions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Hassan Ahmed from Alembic Global.

Hassan Ijaz Ahmed *Alembic Global Advisors - Partner & Head of Research*

A quick question around the Q2 guidance. As I look at the different moving parts, it seems you're guiding to an EBITDA north of \$2.9 billion. So first part of the question is, is that correct?

And second part is that it seems that the \$0.04 a pound April polyethylene price hike stock, you guys seem to have a May price hike on the table as well. So does the guidance factor in these polyethylene price hikes sticking?

James R. Fitterling *Dow Inc. - Chairman & CEO*

I'll have Howard walk through the guidance. On polyethylene, our expectation is we'll see about \$0.04 to \$0.05 coming through here in the near term. For the Americas, we've got \$0.07 out there in April and \$0.07 out there in May. A little bit less in Europe and Asia Pacific. So we are expecting to see prices continue to move up in Packaging & Specialty Plastics through the quarter.

With that, Howard, maybe walk through the guidance for second quarter?

Howard I. Ungerleider *Dow Inc. - President & CFO*

Yes. Sure, Jim. Thanks for the question. But you've got it right. Basically, what we're guiding to is to take the first quarter EBITDA actuals, subtract the \$225 million of turnaround headwinds in P&SP and Industrial Intermediates & Infrastructure and that's our best estimate today of what we see with all the puts and takes of where second quarter EBITDA is likely to land.

Operator

We will now take our next question from P.J. Juvekar from Citi.

Prashant N. Juvekar *Citigroup Inc., Research Division - Global Head of Chemicals & Agriculture Research and MD*

And congratulations on your 125 years of history. Jim, I have a broad question on sort of the future of the European chemical industry, given what seems like a long-term step up in energy prices there. And then specifically on Dow in Europe, how are your crackers performing there? I know you use more LPGs there. And what about II&I and PM&C? How are the margins holding up in Europe in those segments?

James R. Fitterling *Dow Inc. - Chairman & CEO*

Thanks, P.J. Great question. I think, obviously, there were questions about Europe's competitiveness at different times in history and what's happened with Russia entering Ukraine and what that's caused has created more concerns on Europe's ability to, one, decouple from Russia and to compete longer term. That's one of the reasons we made the announcement about the project in Stade, to basically host that LNG import terminal to help that happen.

I would say the crackers right now are operating well. We're able to still have margin in Europe under these circumstances. Obviously, have to pass a lot of that along. But the thing we have to work on is longer term, getting them to a more competitive feedstock and energy cost position. Europe has been higher energy cost than the United States for quite some time, and we've been able to be profitable there.

We did announce some expansions there in alkoxyates for some of our brand owners. We've made expansions there in Spain previously. This will be in Terneuzen. And as you know, we're going to convert Terneuzen to be a net zero ethylene facility over time. So I do think there will be a chemical industry in Europe, but I think we have to continue to look at how it evolves and how we're going to continue to make Europe more energy competitive to support that industry longer term.

Operator

We will now take our next question from David Begleiter from Deutsche Bank.

David L. Begleiter *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Jim, Howard, can you talk about PMC, a little bit about the doubling of earnings sequentially? And how sustainable is this pricing realizing right now in the silicones business?

James R. Fitterling *Dow Inc. - Chairman & CEO*

PM&C had a great quarter. Obviously, PM&C had some issues throughout last year with different outages and some of the challenges from Winter Storm Uri. So Winter Storm Uri impact year-over-year is a big part here.

Volume is also very strong. Coatings -- or silicones has had a super strong first quarter in terms of demand, both on the construction side but also on the personal care side, which is coming back very strongly. Coatings had one of the best first quarters ever, which is the lead up to what's really its typical strongest quarter, which would be second quarter. And not only did volume increase, but pricing increased as well.

And we've been able to navigate COVID in China. Even though we had some issues around the Zhangjiagang area, we were able to keep the plant running. And subsequently, that has been lifted and Zhangjiagang is ramping back up to full rates. So I think we executed and navigated that whole situation pretty well.

Silicon metals spiked a bit in the quarter. I would expect, over time, as things kind of normalize, that will come down a little bit, but that also helped drive some of the pricing that we saw in the first quarter.

So all in all, very strong performance. I do think it will continue to be a strong year for PM&C. We've got demand up in building electronics, industrial, mobility and personal care. The only area that's a little bit softer in 2022 versus '21 would be in home cleaning and that's as we're coming out of the pandemic.

Operator

We will now take our next question from Jeff Zekauskas from JPMorgan.

Jeffrey John Zekauskas *JPMorgan Chase & Co, Research Division - Senior Analyst*

It's a two-part question. Your consolidated volumes were up 1%, which is a slower rate than global GDP growth. In general, what do you make of that?

And secondly, Jim, you've been running Dow Chemical now for 3 years. Has your concept of how you create shareholder value changed over that period? And if you had to summarize it, what would it be?

James R. Fitterling *Dow Inc. - Chairman & CEO*

Jeff, good questions. I would say volume, year-over-year, up 1% consolidated basis is one way to look at it. I would say also sequentially, remember, we were up about 5%. We had a very strong operating rate in hydrocarbons and energy in the first quarter. And so we took advantage of the spreads between oil and natural gas, and that was a big underlying support for all the businesses.

Some of the businesses that are the big volume generators had a pretty strong first quarter last year, and more of their impact from the freeze happened in the second quarter. We were able to manage first quarter last year by selling out of inventory, but second quarter really saw the stronger volume impact from Winter Storm Uri.

In terms of shareholder return. First 3 years post spin, we were faced with quite a few issues. Right after spin, we were moving into really a declining market, which led into COVID and all the issues we had to deal with. And so our focus during that time frame was to make sure that we navigated that, protected that dividend and made sure that we came out with the best balance sheet in the industry when we came out of the pandemic. I believe we did all those things.

A great company is not always a great stock. The actions we took on share buyback were meant to reflect that we think we are undervalued and there's better total shareholder return ahead. And I think we're starting to see that show through in the marketplace.

Operator

We will now take our next question from Chris Parkinson from Mizuho Bank.

Christopher S. Parkinson *Mizuho Securities USA LLC, Research Division - MD and Senior Industrials Equity Research Analyst*

Just very quickly on the free cash flow side, buyback activity is obviously robust to say the least, including the recent addition. Can you just give us a real quick update on your thoughts for uses for cash, '22 perhaps through 2024, just anything on CapEx, some of the growth investments you've been looking at, just anything else investors should really be considering?

James R. Fitterling *Dow Inc. - Chairman & CEO*

Sure. Howard, you want to take a walk through cash priorities?

Howard I. Ungerleider *Dow Inc. - President & CFO*

Yes. Look, in terms of our capital allocation framework, safely and reliably operate our plants is number one. So to do that, we have about \$1.3 billion of turnaround expenses this year. Our CapEx is going to be around \$2.2 billion to \$2.3 billion this year from an organic investment. That's up from \$1.5 billion, \$1.6 billion last year. We're continuing to work on the 65% shareholder remuneration as a percentage of our operating net income. That's across the economic cycle.

But as you rightly point out, Chris, our share buyback continues to ramp. We did \$400 million in the fourth quarter. We did \$600 million in Q1, and of course, the new stock buyback announcement of \$3 billion. We have about \$700 million left on the current program, that

will be done by midyear. And so then we'll have a significant amount of firepower left with that full \$3 billion program on a go-forward basis.

And then we'll continue to look at incremental net debt. We still want to 2 to 2.5 rating agency adjusted net debt to EBITDA. So we still are looking at between maybe a \$500 million and \$1 billion net debt reduction before the end of the year. We'll see how the cash flow goes.

And I would say on the -- don't forget about the cash tailwinds. As Jim talked about in the prepared remarks, our cash flow yield is significantly above our peer group 50%, 5-0 percent above our peer group. It is 20% better than our next closest peer. And one of the reasons is everybody in Team Dow now has not just a P&L statement, but a balance sheet and a cash flow statement.

We're actively working on working capital improvements. Our working capital was improved by 3 to 4 days, depending on whether you're looking at same quarter last year or prior quarter. And then the unique-to-Dow tailwinds that we continue to work on. We've got more than \$1 billion of unique-to-Dow cash tailwinds that we're working on still this year that haven't come through that should come through over the next 3 quarters.

Operator

We will now take our next question from Vincent Andrews, Morgan Stanley.

Vincent Stephen Andrews Morgan Stanley, Research Division - MD

Just first, can we just clarify the comments you made on the polyethylene prices? I think you said you're expecting a \$0.04 to \$0.05 increase for 2Q. I just couldn't tell whether that was a global comment or how that compared versus the \$0.14 that you have out for the next 2 months in the U.S?

And then my actual question is for Howard, just to talk about the pension. Just given if -- rates have already gone up a lot year-to-date and what with most expectations for what the Feds are going to do for the rest of the year, what does that do in terms of your pension? And what opportunities could that present for you to materially reduce that liability?

James R. Fitterling Dow Inc. - Chairman & CEO

Yes. So if you look, Vince, good question. If you look at our polyethylene numbers quarter-over-quarter, the IHS markers that are out there right now call for Americas to be up \$0.05; Europe and Asia Pacific to be up \$0.04; and the global weighted average to be up about \$0.05.

Our current nominations that are out there in the marketplace today are \$0.07 in the month of April and \$0.07 in the month of May for North America; there's \$0.07 on the table from Latin America, which is a carryover from late March; we've got EUR 400 in Europe; and we've got \$0.05 in Asia Pacific. So those are the current nominations. So I would say, I think we're going to land somewhere between our nominations and where that IHS data is coming in.

Days demand and inventory on PE inventory has decreased about 9%. U.S. and Canada, demand was strong in the first quarter. So that was part of the decrease. But the other part was a product that was sitting, waiting to be exported from the United States. And the export channel is moving better. It's not back to where it needs to be. But we're seeing weekly and monthly improvements in the export channel and that's helping us out. And we're starting to see that roll through in the inventory data.

And did I miss the second half of that question?

Howard I. Ungerleider Dow Inc. - President & CFO

The second question was around pension. I can take that, if you want? So when you look at our underfunded pension, we ended the year last year -- that number has come down dramatically. It's come down \$6 billion total since year-end 2020. At the end of last year was at \$6 billion, that's pension plus OPEB all in. And just with the rate moves we've seen year-to-date, that \$6 billion number is now lower by \$2 billion.

So our total pension OPEB underfunding is \$4 billion. It really only takes another maybe 75 basis points of rate increases and 1 more year of EROA for us to fully fund that gap. What we're doing is we have a methodical plan that as rates continue to move and as each pension plan gets to fully funded status, we are working to immunize each plan individually with the goal of not putting additional cash in to immunize. So that will depend on each country's rules and regulations. And obviously, the EROA and -- of each individual pension plan.

But over the next, I would say, 3 years, plus or minus, depending on how rates move from here and obviously, how the EROA does, we should be able to fully fund and fully immunize that plan. That's the path that we're working toward today.

Operator

We will now take our next question from Stephen Richardson, Evercore ISI.

Stephen I. Richardson Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Oil and Gas & Exploration and Production Research

Jim, I was wondering if you could talk a little bit about your outlook for U.S. natural gas. I appreciate all the discussion on feedstock and all the flexibility that Dow enjoys. We have seen a big move in the back of the forward curve, talk about accelerating LNG exports, some more global linkages at least seasonally. So curious, does that make you want to expand some of your joint ventures and some of your access further upstream? Or how is your outlook kind of changing as a big downstream consumer of domestic natural gas?

James R. Fitterling Dow Inc. - Chairman & CEO

Yes. Good question. Natural gas has been stubbornly high. It was higher than last year before the Russian-Ukraine incident and then obviously, then that drove it quite a bit higher. I would say the biggest issue behind natural gas pricing in the near term has been freeze-offs in the U.S. and the fact that we've not been back to the 98 Bcf a day that we need to produce at to get inventories back to the 5-year level. We've only been running about 95 Bcf per day, so we're about 3 Bcf a day short to get those inventories back to that level. Some of that has been due to freeze-offs through the winter and just not a big rebound.

But we're starting to see the production and the rigs shift into natural gas production. And what's going to happen, I think, is that natural gas production is going to come on faster than any LNG export capability. We're pretty well maxed out on LNG export capability today. So we'll -- if we can get these inventories back to the 5-year average levels by the fall, then I think you're going to see natural gas prices really come back into a more normal trading range.

In the medium term, I'd say they get back to \$4 to \$6, 1 million Btu longer term as those inventories get to that 5-year level, around \$3, 1 million Btu. And then I think you'll see how many new export facilities get put up and also how much new import capability in Europe gets added to be able to decouple them from the Russian situation.

I think natural gas is going to see more investment and has a more positive outlook in the near term than oil. Oil has not had the investment for new capacity for the last several years. And if we were back to the level that oil needed to invest at today, we'd have to sustain that for a few years before we would see the oil supply come. I think the natural gas supply will come quicker. You'll see a response on natural gas in the 6 months to 12 months' time frame, not 2 to 3 years.

Operator

We will now take our next question from Kevin McCarthy from Vertical Research Partners.

Kevin William McCarthy Vertical Research Partners, LLC - Partner

Jim, if I look at Slide 8, where you provide some helpful detail on your various capital projects, a few of them relate to silicones. And so I was wondering if you could expand on your near-term and also longer-term outlook there in terms of supply demand and also educate us a bit on where you're adding capacity, how much, and the returns look awfully good at north of 20%. So curious to understand what kind of pricing you're embedding in that as well.

James R. Fitterling Dow Inc. - Chairman & CEO

Sure. We've got quite a bit of downstream silicone capacity coming on. A fair amount of it is in China. It's in a wide range of markets. It's in construction markets, in electronics, in mobility, it's in personal care markets. Silicones is used in such a wide variety of applications. And those markets are all growing substantially. EVs use 2 to 3x more silicones than a traditional internal combustion engine vehicles and EVs' growth rates right now are relative. Year-over-year growth rates are super strong. So I think both return of internal combustion vehicle sales as the semiconductor chip issue is alleviated and the EV growth is going to really drive a lot of demand there.

Autonomous vehicles, 5G capabilities, all require more silicones. We have to eliminate the crosstalk in all those areas. And you've got to put up a lot more infrastructure in cities for 5G to support absolute continuous coverage in those areas. And that's really, really strong.

There are about 20 debottlenecking projects that are in those total projects. They're anything from new vulcanized products, lower viscosity fluids for personal care applications, all kinds of gels for EVs, electronics, mobile optics for automotive lighting. So think about the headlamps in a vehicle, not being polycarbonate anymore but being moldable optical silicone. Those are some of the biggest growth areas in that sector.

Operator

We will now take our next question from Mike Sison from Wells Fargo.

Michael Joseph Sison Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Analyst

Nice start to the year. Just curious, if you do happen to get sort of this \$0.09 increase in the second quarter, yes, I think polyethylene prices will be back to October's peak. Where would integrated margins be if that was achieved? I understand energy costs clearly are higher now versus they were in October. So would you be close to the past peak margins? Or would you need to get more price increases to get there? And could you bifurcate that between North America and Europe?

James R. Fitterling Dow Inc. - Chairman & CEO

Yes. If we were to get \$0.09, as you suggested, we'd probably be close to that peak in the Americas, maybe a little bit shy of that peak in Europe and a fair bit off of the peak in Asia Pacific. Asia Pacific has been under a lot of pressure because of the much higher cost. Their cash margins in Asia have been really, really slow. And you've seen a lot of turndown in rates in Asia.

But I would say, yes, on North America, you'd be back close to that peak, maybe a few cents below it and same with Europe. So I think you're looking at it the right way. If we were to get \$0.09 -- the other way to look at it is if we were to get the whole \$0.09, we would probably cover the turnaround costs in P&SP and that wouldn't be a drag on the quarter. That's not what we've got in the forecast, but it is possible that, that could happen.

Operator

We will now take our next question from Frank Mitsch from Fermium Research.

Frank Joseph Mitsch Fermium Research, LLC - President

And let me also offer my congrats on the 125. Jim, you just talked about some of the difficulties in Asia in terms of margins. And I was wondering if you could expand a little bit more on what you're seeing on the ground right now in terms of demand relative to the shutdowns that are going on with COVID zero in China? And how do you think that, that plays out?

James R. Fitterling Dow Inc. - Chairman & CEO

Demand has been relatively stable. I would say, we don't have as much of a footprint in plastics in China as we do in Performance Materials & Coatings, and we do in silicones, and we do in Industrial Solutions. And so for plastics, a lot of what we would move in would be from the U.S. Gulf Coast or obviously from our partners in the Middle East.

Having said that, our demand was still pretty strong year-over-year going into China. We're seeing a lot of accelerated turnaround activity right now in China. So you're seeing crackers not just in China, but in Southeast Asia and North Asia, lowering operating rates, you're seeing them take turnaround time now instead of just slowing rates and continuing to operate. We've seen a lot of pressure on

coal to olefins and methanol to olefins. And so I think that will continue.

And obviously, I do believe that China is seeing some advantage of being able to buy feedstocks probably from Russian sources at discounted rates. So that may be helping a little bit, but it certainly isn't making them positive cash margins. And I think we're going to be in that kind of environment for the next couple of quarters.

Operator

We will now take our next question from Steve Byrne from Bank of America.

Stephen V. Byrne BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst

I have a couple of energy-related questions for you. In Europe, do you have gas hedged? And any hedges that roll off to note here? And with respect to what Germany is mulling over, whether they cut off Russian gas and/or need to pay in rubles, how do you manage that risk? Is it a concern for you?

And then maybe one other energy-related question for you, Jim. You talked through the ambitious decarbonization targets and one of the projects is to try to develop these e-crackers. My question for you on that is, are you seeing some demand pull for greener sources of polyethylene that might enable you to sell those products at a higher price, i.e., do you think you can get a return on such projects like that?

James R. Fitterling Dow Inc. - Chairman & CEO

Yes. Good question, Steve. I would say, in general, on hedging and both in the United States as well as in Europe, we've increased our hedging positions on natural gas, just based on what we've seen over the last couple of quarters. And we moved those positions over time, whether it be oil or natural gas. And we've had higher positions on both over the last couple of years.

Our biggest move is just based on our usage and our usage of natural gas and other feedstocks is so ratable that, that physical demand that we create is where we play most with the hedging. So what we can do with physical positions, what we can do with feedstock flexibility around cracking probably is our biggest bang for the buck bottom line. And then the paper strip and the physical are the financial hedge is next after that.

When it comes to e-cracking, the biggest challenge on e-cracking right now is finding the right materials of construction to make an electric coil for a cracker furnace that can withstand the heat that you need to be able to crack hydrocarbons and have any kind of life. And so I would say before we start thinking about what the return on that will be, we've got to just see if we can get the materials of construction right and be able to have a furnace coil that will have any kind of life to it at all and that can operate at a high operating rate and have good reliability over a long period of time.

And that's the biggest proof point on this pilot project. And then we can work ourselves into do we have the renewable energy at the right cost to be able to make that happen. We're doing that work in the Netherlands. I think it's important to note that the Netherlands has 6 new nuclear plants on their long-term plan. And I think that's a great sign in terms of what they see in terms of the need to basically decouple. They're going to have to rely a lot more on nuclear power to have high reliability, low-cost power. And that's going to be especially important for our industry as we move forward. And we need to look at that same thing. We're looking at that here in the U.S. in terms of small modular nuclear reactors.

Operator

We will now take our next question from Josh Spector from UBS.

Joshua David Spector UBS Investment Bank, Research Division - Equity Research Associate - Chemicals

Just want to follow up. From your release, you guys talked about functional polymer pricing was up, while commodity polyethylene pricing was down. So I'd be just curious, is that normal that you would see that kind of divergence? And if you can give us some perspective of what that spread is today on that functional polymer over commodity. Is that higher or lower than where you would say it's been on average? And where do you see that going?

James R. Fitterling Dow Inc. - Chairman & CEO

Yes, that's a good question. About 25% of our product mix is in the functional polymers when you look at P&SP downstream. Typically, the way you would think about functional polymers is they would typically hold their price through the cycle. They typically have less price dynamic movement compared to the commodity side of the business. But they're up quite a bit this quarter, and I would say that's because demand has been strong on the downstream for them and there hasn't been a lot of new capacity added there.

So just a tighter supply/demand balance on some of those functional polymers than we've seen. And I think some of that will continue because some of the markets that they go into are infrastructure-related. They can go into wiring cable markets, they can go into things like geomembranes and roofing for commercial buildings.

And so as you see more infrastructure-related projects, I think you're going to see that strong demand last longer here for functional polymers and that will probably keep the prices of those materials up. Also some higher input costs for some of the monomers to make functional polymers is going to have to pass through as well.

Operator

We will now take our next question from Arun Viswanathan from RBC Capital Markets.

Arun Shankar Viswanathan RBC Capital Markets, Research Division - Senior Equity Analyst

So I guess, two questions real quickly. So could you just give us a quick outlook on MDI? And then also maybe if you could discuss the certain situation that you see as far as inventories in polyethylene. We know that there's some tied up in supply chain, but do you see that alleviating over the next couple of months?

James R. Fitterling Dow Inc. - Chairman & CEO

Yes. Look, good question, Arun. On MDI, the balances through 2026 are pretty good. Demand looks like it's going to continue to outpace supply through 2026. So I think that continues to be positive for MDI.

On polyethylene, as I mentioned, in the Gulf Coast -- in the U.S. Gulf Coast, we've seen inventories come down. Inventories were down in March by about 200 million pounds and days of demand decreased by about 9%. So it's about 46 days of demand, and that's pretty -- if I looked at all of last year, they probably ran around 45 days all of last year. So I'd say pretty normal. And that is with still some congestion in the ports for the export channel.

So I would say supply challenges will still put upward pressure about 3 to 4 days on [DDI]. And half of that's due to third-party congestion and the other half is inventories that were built to cover turnaround season in second quarter, which is typically the heaviest turnaround season.

Based on the way things are moving, every month, we're seeing a little bit better export flows out of the Gulf Coast. So I think if we can keep steady improvement through the year, hopefully, we can get back to a more normal kind of predictable rate by the end of this year.

Operator

We will now take our next question from Aleksey Yefremov from KeyBanc.

Aleksey V. Yefremov KeyBanc Capital Markets Inc., Research Division - Research Analyst

I had a question on the LNG import terminal in Europe. I think, in general, you've been selling midstream energy assets. Is this one an exception because it's so strategic? Or could you, in the long run, also maybe monetize this one?

James R. Fitterling Dow Inc. - Chairman & CEO

Well, that's a good question. I think it's unlikely that we get into it just to monetize it. Our contribution -- and remember, our equity interest here is relatively low. We stepped in and made a contribution of land and access to our infrastructure services for the site in Stade. And those of you who are not familiar, Stade is about 40 minutes upstream from Hamburg on the Elbe River.

And we've got the capability. We've got our own port there, and we've got the capability to have a birth for an LNG ship to land in there. And so by contributing that land, we take an equity position in that Hanseatic Energy Hub. They've got plans to build the new terminal by 2026. They're going through the approvals right now. If they can get that done, that will satisfy 15% of Germany's natural gas demand. And so that will really help Germany have a second source of supply to the Russians. And that's very strategic, and I think that's important for the country.

So that's the reason we got into it to make it happen. We're not far enough along yet to get into what the offtake agreements are, but we will provide utilities. We'll provide cooling and other things to be able to help them make that a zero carbon emissions hub.

And I'm glad we were in a position to be able to do it. There's been some talk about building an LNG import facility in Germany for some time, but we were at the point where we were not sure whether Stade would still be on the table. And this came together relatively quickly after the Russia-Ukraine situation. And I'm really happy that the team was able to move in fast and put a stake in the ground on this.

Operator

Thank you. That is all we have time for today. I will now pass the call back to your host, Mr. Pankaj Gupta for closing remarks.

Pankaj Gupta *Dow Inc. - VP of IR*

Thank you, Emma, and thanks, everyone, for joining our call. We appreciate your interest in Dow. And for your reference, a copy of our transcript will be posted on Dow's website within approximately 24 hours or so. This concludes our call. Thank you very much.

Operator

Ladies and gentlemen, that will conclude today's conference. You may now all disconnect.

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