S&P Global
Market Intelligence

Dow Inc. NYSE:DOW

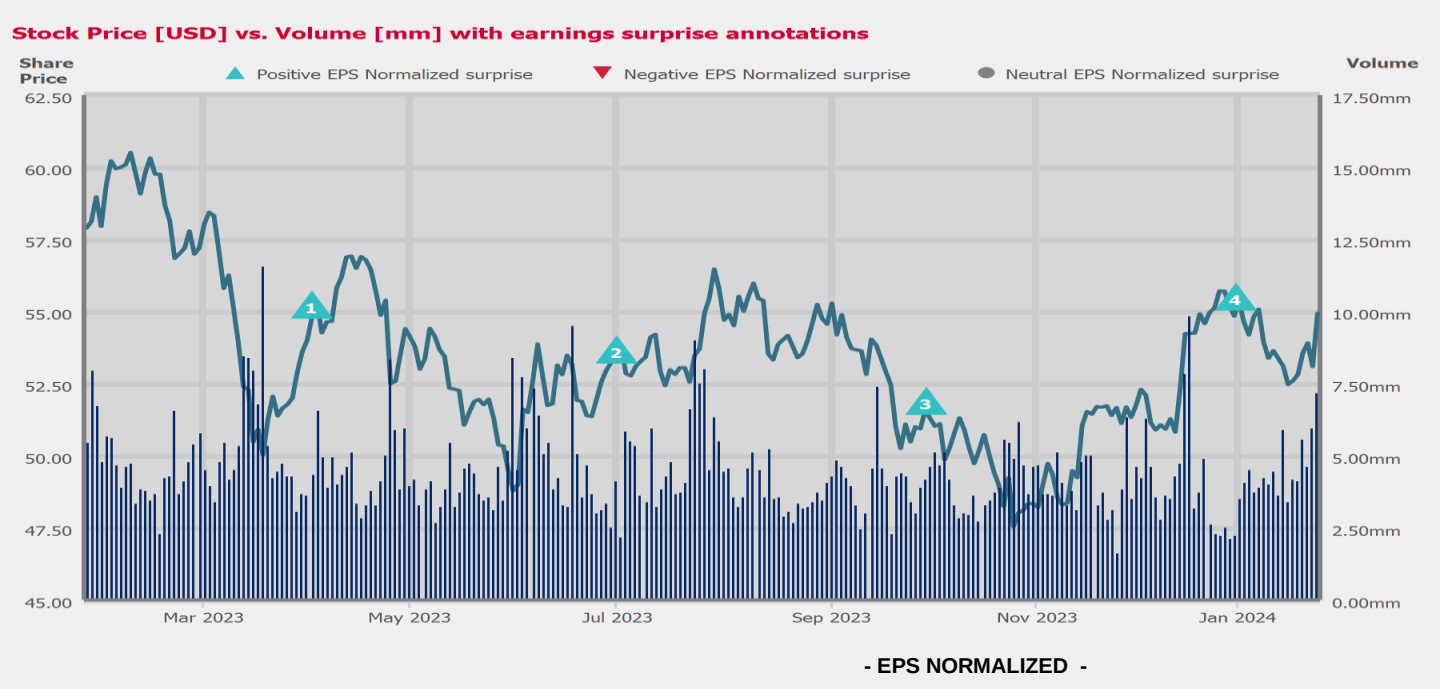
FQ4 2023 Earnings Call Transcripts

Thursday, January 25, 2024 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.40	0.43	7.50	0.53	2.21	2.24	1.36	3.19
Revenue (mm)	10396.22	10621.00	2.16	11459.41	44390.99	44622.00	0.52	45931.54

Currency: USD
Consensus as of Jan-25-2024 12:40 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2023	0.37	0.58	1 56.76 %
FQ2 2023	0.71	0.75	2 5.63 %
FQ3 2023	0.45	0.48	3 6.67 %
FQ4 2023	0.40	0.43	4 7.50 %

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Table of Contents

Call Participants 3

Presentation 4

Question and Answer 9

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Call Participants

EXECUTIVES

James R. Fitterling
Chair & CEO

Jeffrey L. Tate
Chief Financial Officer

Pankaj Gupta
Vice President of Investor Relations

ANALYSTS

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

Arun Shankar Viswanathan
RBC Capital Markets, Research Division

Daniel Rizzo
Jefferies LLC, Research Division

David L. Begleiter
Deutsche Bank AG, Research Division

Frank Joseph Mitsch
Fermium Research, LLC

Hassan Ijaz Ahmed
Alembic Global Advisors

Jeffrey John Zekauskas
JPMorgan Chase & Co, Research Division

Joshua David Spector
UBS Investment Bank, Research Division

Kevin William McCarthy
Vertical Research Partners, LLC

Michael James Leithead
Barclays Bank PLC, Research Division

Michael Joseph Sison
Wells Fargo Securities, LLC, Research Division

Patrick David Cunningham
Citigroup Inc., Research Division

Patrick Duffy Fischer
Goldman Sachs Group, Inc., Research Division

Stephen V. Byrne
BofA Securities, Research Division

John Roberts
Mizuho Securities USA

Vincent Stephen Andrews
Morgan Stanley, Research Division

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Presentation

Operator

Greetings, and welcome to the Dow Fourth Quarter 2023 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

I will now turn it over to Dow Investor Relations Vice President, Pankaj Gupta. Mr. Gupta, you may begin.

Pankaj Gupta
Vice President of Investor Relations

Good morning. Thank you for joining today. The accompanying slides are provided through this webcast and posted on our website. I am Pankaj Gupta, Dow Investor Relations Vice President. And joining me are Jim Fitterling, Dow's Chair and Chief Executive Officer; and Jeff Tate, Chief Financial Officer.

Please note, our comments contain forward-looking statements and are subject to the related cautionary statements contained in the earnings news release and slides. Please refer to our public filings for further information about principal risks and uncertainties. Unless otherwise specified, all financials, where applicable, exclude significant items. We also will refer to non-GAAP measures, a reconciliation of the most directly comparable GAAP financial measure and other associated disclosures are contained in the earnings news release and slides that are posted on our website.

On Slide 2 is our agenda of today's call. Jim will review our fourth quarter results, full year highlights and operating segment performance. Jeff will provide an update on the macroeconomic environment, our strong financial position through the cycle as well the modeling guidance. To close, Jim will provide an update on key milestones for our long-term growth and sustainability road map, which will continue to drive shareholder value. Following that, we will take your questions.

Now let me turn the call over to Jim.

James R. Fitterling
Chair & CEO

Thank you, Pankaj. Beginning on Slide 3. In the fourth quarter, we continued to execute with discipline and advance our long-term strategy in the face of a dynamic macroeconomic environment. Net sales were $10.6 billion, down 10% versus the year ago period, reflecting declines in all operating segments. Sales were down 1% sequentially as volume gains in Packaging & Specialty Plastics were more than offset by seasonal demand declines in Performance Materials & Coatings. Volume increased 2% year-over-year, with gains across all regions except Asia Pacific, which was flat.

Sequentially, volumes decreased by 1%, including the impact of an unplanned event from a storm that was equivalent to a Category 1 hurricane at Bahia Blanca site in Argentina. Local price decreased 13% year-over-year with declines in all operating segments due to lower feedstock and energy costs. Sequentially, price was flat, reflecting modest gains in most regions.

Operating EBIT for the quarter was $559 million, down $42 million year-over-year, primarily driven by lower prices. Sequentially, operating EBIT was down $67 million as gains in Packaging & Specialty Plastics were more than offset by seasonally lower volumes in Performance Materials & Coatings. Our cash flow generation and working capital management enabled us to deliver cash flow from operations of $1.6 billion in the quarter.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

We continued to reduce costs and focus on cash generation, completing our $1 billion of cost savings for the year. And in the fourth quarter, we pursued additional derisking opportunities for our pension plans including annuitization and risk transfer of $1.7 billion in pension liabilities and a onetime noncash and nonoperating settlement charge of $642 million. We also advanced our long-term strategy while returning $616 million to shareholders and we reached final investment decision with our Board of directors for our Path2Zero project in Fort Saskatchewan, Alberta.

Now turning to our full year performance on Slide 4. Our 2023 results demonstrate strong execution and a commitment to financial discipline. Against the dynamic macroeconomic backdrop, Team Dow continued to take proactive actions. As a result, we generated $5.2 billion in cash flow from operations for the year reflecting a cash flow conversion of 96%. We also returned $2.6 billion to shareholders through dividends and share repurchases.

Our efforts continue to be recognized externally through industry-leading awards, certifications and recognitions, and we continue to outpace our peers on leadership diversity. I'm proud of how Team Dow is delivering for our customers, driving shareholder value and supporting our communities as we progress our long-term strategy.

Now turning to operating segment performance on Slide 5. In the Packaging & Specialty Plastics segment, operating EBIT was $664 million, up $9 million compared to the year ago period. Results were driven by lower input costs and higher operating rates, where we closed out the year strong and hit record ethylene production levels on a full year basis. Local price declines were driven by lower global prices, while volume increases were led higher packaging demand, primarily in the U.S., Canada and Latin America. Sequentially, operating EBIT increased by $188 million. This was driven by higher integrated polyethylene margins, the impact of planned maintenance activity in third quarter and higher licensing revenue.

Moving to the Industrial Intermediates & Infrastructure segment. Operating EBIT was $15 million compared to $164 million in the year ago period. Results were driven by lower local prices in both businesses as well as reduced supply availability in Industrial Solutions. Sequentially, operating EBIT was down $6 million, driven by seasonally lower volumes in building and construction end markets, which were partially offset by seasonally higher demand for deicing fluid and higher demand for mobility applications.

And in the Performance Materials & Coatings segment, operating EBIT was a loss of $61 million compared to a loss of $130 million in the year ago period, driven by lower costs and reduced planned maintenance turnaround activity. Volume was up year-over-year, driven by higher demand in project-driven building and construction end markets. Sequentially, operating EBIT decreased $240 million primarily due to seasonally lower volumes.

Next, I'll turn it over to Jeff to review our outlook and actions on Slide 6.

Jeffrey L. Tate
Chief Financial Officer

Thank you, Jim. Before I begin, I'd like to mention how excited I am to have rejoined Dow last November. I've been connecting with key stakeholders, analysts and shareholders, including many of you on this call today, and I look forward to meeting with so many others in the future.

After 4 years serving in a CFO role outside of Dow, I'm pleased to see that Dow's culture of execution, commitment to advancing our ambition and the focus everyone has demonstrated on delivering on our financial priorities since Spin remains. This is an exciting time for the company. As CFO, I'm proud to carry forward Dow's commitment to maintaining a disciplined and balanced approach to capital allocation over the economic cycle as we advance our growth strategies and deliver long-term value for shareholders.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Now for our outlook on Slide 6. As we enter 2024, we expect near-term demand to remain pressured by elevated inflation, high interest rates and geopolitical tension, particularly in building and construction and durable goods end markets. That said, we are seeing some initial positive indicators. While inflation is still elevated compared to pre-COVID levels, it's growth rate is moderating, supporting more stable economic conditions.

In addition, the destocking that began in late 2022 has largely run its course, resulting in low inventory levels throughout most of our value chains. In the U.S., industrial activity continues to be moderate. And December industrial production increased 1% year-over-year and chemical railcar loadings are up 9.6% in January versus the prior year. U.S. consumer spending has remained resilient with retail trade sales of 4.8% in December. We're also encouraged by our recent forecast from the American Coatings Association, which expects market demand to grow approximately 3% in 2024 following three consecutive years of declines.

In Europe, while inflation has moderated, consumer demand remains weak with retail trade sales down 1.1% year-over-year in November. In December, manufacturing PMI remained in contractionary territory and new car registrations fell 3.3% year-over-year after 16 consecutive months of growth.

We continue to monitor China where we see improving conditions, which could provide a source of demand recovery following the Lunar New Year. Industrial production was up 6.8% year-over-year last month, exceeding market estimates of 6.6%. December auto sales also continue to be strong in China, supported by year-end incentives.

In other regions around the world, industrial activity remains constructive. While India manufacturing PMI remains expansionary, ASEAN manufacturing PMI entered contractionary territory last month. In Mexico, November marked the 25th consecutive month of industrial production growth.

On Slide 7, our competitive advantages, early cycle growth investments and operational discipline position us well to capitalize on a recovery and deliver growth when economic conditions improve. Our differentiated portfolio with structurally advantaged assets, global scale and strong cost positions enable us to competitively support global demand growth over the cycle.

Healthy oil to gas spreads supported by growing natural gas and NGL production in the U.S. favor our cost advantage and ability to capture margin momentum. We've also taken actions to position the company for profitable growth, including ongoing execution of near-term investments that are expected to deliver roughly $2 billion in incremental underlying EBITDA by mid-decade. In addition, we've improved our cost profile, delivering $1 billion in targeted savings in 2023 that included lower planned maintenance spending, structural improvements to raw materials, logistics and utility costs. In addition, more than 90% of the 2,000 impacted roles exited by year-end. Our strong balance sheet allows us to navigate the bottom of the cycle and have the strength to capitalize on the next upside in the global economy.

Turning to our outlook for the first quarter on Slide 8. In the Packaging & Specialty Plastics segment, lower feedstock and energy costs will be more than offset by lower earnings from nonrecurring licensing activity from the prior quarter, resulting in a $25 million headwind. Additionally, we expect a $50 million headwind due to higher planned maintenance activity at select energy assets in the U.S. Gulf Coast.

In the Industrial Intermediates & Infrastructure segment, we expect margin expansion on higher MDI and MEG's spreads as well as lower European energy costs, resulting in a $50 million tailwind. Increased season demand for deicing fluid is expected to provide a $25 million tailwind despite being partly offset by continued weakness in consumer durables demand. We also expect a headwind of $50 million due to planned maintenance activity in the quarter, primarily related to a PDH turnaround and catalyst change.

In the Performance Materials & Coatings segment, downward pressure is expected to continue due to excess supply from competitive supply additions that will keep margins at depressed levels. However, we expect higher seasonal

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

demand in building and construction end markets to contribute $150 million tailwind for the segment. We also expect higher planned maintenance turnaround activity at our Deer Park acrylic monomers site and PDH to result in a $50 million headwind in the quarter. With all the puts and takes, we expect first quarter earnings to be approximately $25 million to $50 million above fourth quarter performance.

Next, I'll turn it back to Jim.

James R. Fitterling
Chair & CEO

Thank you, Jeff. Moving to Slide 9. Our decarbonize and grow and transform the waste strategies uniquely position us to capitalize on demand for more sustainable and circular solutions across our attractive market verticals. Altogether, by 2030, these investments enable us to deliver an increase of more than $3 billion to our underlying earnings through the cycle while reducing Scope 1 and 2 emissions by 5 million metric tons and commercializing 3 million metric tons of circular and renewable solutions annually.

In November, we reached a key milestone as our Path2Zero project in Fort Saskatchewan, Alberta, achieved final investment decision by our Board of Directors. We also continue to advance our transform the waste strategy via intentional actions, strategic partnerships and offtake agreements. In the fourth quarter, Valoregen's 15,000 ton per year mechanical recycling line in France achieved mechanical completion and Mura Technologies in the U.K. commenced commissioning, which is expected to contribute 20,000 tons per year of advanced recycling capacity. Both Valoregen and Mura expect to reach commercialization in the first half of this year.

And the next step of our sustainability strategy, Dow has established a green finance framework, which was published on our Investor website today. This allows us to further align our funding with our goals and targets while also providing an opportunity for the investor community to take part in the execution of our sustainability strategy. Altogether, we remain confident in our long-term earnings growth, with continued focus on a more sustainable future while maintaining a disciplined and balanced approach to capital allocation.

Now turning to Slide 10. Polyethylene demand is expected to continue to grow at approximately 1.2x to 1.4x GDP through 2050. A growing population, regulations and consumer preferences support this, and our customers have expressed an increasing need for low and zero carbon emission and circular products. As global demand grows, no new cost-advantaged ethylene capacity is expected to come online in North America until the late 2026 to 2027 time frame, which is expected to tighten the supply-demand balance in the near term. We are well positioned to capture new and growing demand with our existing assets and partnership agreements. In addition, we are investing in low carbon emissions infrastructure to capture growing demand for polyethylene, as you will see on Slide 11.

Our Fort Saskatchewan project will build upon the strong foundation of our Texas-9 cracker where we have proven our best-in-class execution, capital efficiency, reliability and emissions reduction. Canada's feedstock cost advantage provides Dow with lower cash cost compared to the rest of the world, even more advantaged than the U.S. Gulf Coast.

We also anticipate potential upside from the commercialization of low and zero emissions products. Total CapEx spend is expected to be $6.5 billion on this key growth project, excluding any incentives with Dow's total enterprise CapEx to ramp in 2024 to approximately $3 billion and exceed depreciation and amortization levels annually through 2027. We remain committed to keeping our CapEx within D&A across the economic cycle and expect to return to those levels as we complete this project. We expect to receive governmental support totaling more than $1.5 billion in cash and tax incentives that will bring the net capital outlay for this project to $5 billion. The majority of these incentives are expected to be received by Dow through 2030, which is closely aligned with our CapEx deployment for the project.

We will begin construction in the first half of 2024, with Phase 1 start-up of approximately 1.3 million tons per year of

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

capacity expected in 2027. In Phase 2, we will add another 600,000 tons of capacity, which is expected to start up in 2029. Phase 2 also includes the retrofit of our existing cracker, reducing net 1 million metric tons per year of CO2 Scope 1 and 2 emissions.

Closing on Slide 12. The actions we've taken since Spin have strengthened our balance sheet, increased cash flow and enhance the financial flexibility and resilience of our business. In 2023, we built on that foundation, moving swiftly to deliver $1 billion in cost savings and focus on cash generation as economic conditions remained challenging. As a result, we delivered on all of our capital allocation priorities, including a fully funded dividend, $625 million of share repurchases and growth investments, all while maintaining the strongest balance sheet we've ever had at this part of the cycle.

With all of our debt at fixed rate, we have no substantive debt maturities due until 2027 and $13 billion of available liquidity. Additionally, we have returned approximately 90% of our net income to shareholders since Spin, well above our 65% target of the economic cycle. With global reach, presence in attractive end markets and advantaged cost position and early-stage growth investments in flight, we are well positioned to capture attractive growth opportunities as economic conditions recover.

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

Pankaj Gupta
Vice President of Investor Relations

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 as well as the following Q&A. Operator, please provide the Q&A instructions.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Hassan Ahmed from Alembic Global.

Hassan Ijaz Ahmed
Alembic Global Advisors

Jim, a couple of times through the prepared remarks, you talked about inventory. It just seems that there are two camps out there in terms of the thought process with regards to what a potential restocking may look like. And I'd love to hear your views about that.

On one side of the debate, people are sitting there and saying, "Hey, look, since the second half of 2020-2022, the destocking was significant, and maybe as and when we should expect an equally impressive restock. But then on the other side of the camp you have, some of the folks that are sort of debating that buying patents across the supply chains change quite dramatically coming out of the pandemic and maybe a restock could not look that impressive. So I'd love to hear your views. And if you could also sort of elaborate on that within some of the main product chains, be it polyethylene, polyurethanes and the like.

James R. Fitterling
Chair & CEO

I think that's a great question. I think one of the reasons that December and fourth quarter ended up stronger than expected, especially I'll use Packaging & Specialty Plastics as an example, was because you had a pretty mixed year '23. And in December, you can sometimes see the behavior that the last half of December, things slow down and people manage cash and they don't buy. That was not what we experienced in December. We actually experienced strong demand right through the month.

I don't think that's an indication of restocking, but I do think it's an indication that inventories are low through the supply chain and the consumer demand was resilient. And so people had to buy to keep their supply chains moving. So I would say through the value chains today and almost all the businesses, it looks like there's not an excess of inventory out there. And as demand is coming, people are having to buy to keep the chains full.

Secondly, inventories are low in areas like P&SP, Industrial Solutions because the arbitrage is open and our own footprint, 85% of our own global footprint is in light cracking jurisdictions where we crack ethane and propane, which have been highly advantaged. And so that's what allowed us to set an ethylene record for the year.

I would say we're not -- I don't think we're in a restocking cycle yet. I think people are coming together around a soft landing here. I mean we're seeing positive signs on housing permits. That doesn't turn into housing demand until we start to see, say, maybe interest rates come down. If interest rates come down in the same quarter, maybe you start to see some pickup in housing construction, and that starts to show up more toward the back half of the year. You've got to remember that energy costs are low. And so if people are thinking that energy costs are low and I'm still able to buy at reasonable prices going forward. There may not be a reason for them to do a big restock right now. But this will turn and as energy costs start to move up and the whole complex starts to move up with demand, I think at that point, I think we would be wise to keep our eye on what's happening with the potential for restock. It might just be a little soon right now.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Operator

Your next question comes from the line of Mike Sison from Wells Fargo.

Michael Joseph Sison
Wells Fargo Securities, LLC, Research Division

Nice end of the year. Just curious, you had good volume growth in PSP in the fourth quarter. Do you expect that to continue into the first and maybe any of your thoughts on how your operating rates for polyethylene will sort of improve sequentially and the cadence for the year?

James R. Fitterling
Chair & CEO

Yes. Thanks, Michael. Good question. Operating rates in the advantaged regions, especially Canada, U.S. Gulf Coast, Argentina were strong through the end of the year. I mentioned ethylene production record, we saw rates above 90% in those regions for the fourth quarter. And obviously, we saw a little bit of an improvement in Europe. I would say the Suez Canal situation means not as much material from the Middle East is flowing into Europe. And so that's given Europe a little bit of a lift on operating rates as we go into the first quarter. And of course, with propane being where it is, we've -- we're cracking LPGs in Terneuzen and Tarragona and that's helping out a bit there.

I would say I think P&SP is going to continue to see good volume growth. That's what our outlook is going forward. The Industrial Solutions is holding up relatively well. We have our own self-inflicted issue with the Plaquemine Glycol plant, but I'm expecting that back up in the second quarter. And we're watching carefully on construction chemicals demand and durable goods to see if we see an uptick there. We saw some good movement in consumer electronics. And so that's got me a little bit optimistic.

Operator

Your next question comes from the line of Vincent Andrews from Morgan Stanley.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Maybe two quick ones for me. Just on Slide 7, you have some project starts that are going from '24 to '26. Talk about how material some of that might be for 2024. And then also, if you could just give an update on what you did with the pension ending the year.

James R. Fitterling
Chair & CEO

Yes. On project starts, we've got things that we've got coming up, obviously, is we've got somehow alkoxylation capacity that came up in '22 and '23, that's running really well. We started up the MDI distillation facility in Freeport in the third quarter. I think that will start to show some positive benefit to us as we move forward. That is about a 30% increase in MDI distillation and also reduction of a footprint, getting us out of the La Porte site.

And we've got Seadrift alkoxylation second wave expansion in fourth quarter this year and then Terneuzen in fourth quarter of 2025. Both of that supports the growing demand and energy and also Consumer Solutions and Pharma business. So that's good. Amines business for carbon capture is growing well. And so that's good.

If you look at plastics industry, there's really no new capacity coming on in plastics, say one train at the Shell plant in the

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

United States. Otherwise, all the plastics capacity is in the market, inventories are low, export channel is running strong and we saw volume growth year-over-year in the fourth quarter. So I feel good about the overall outlook for plastics as we're going into 2024.

When you get into polyolefins, our polyurethanes and propylene oxide, a little bit different story, net capacity come on in China. We've seen the same in siloxanes last year. I think we're working through that. The silicones growth is going to eat up that siloxane capacity, but we've got to see the durable goods market and the housing market come back to tighten up PO. Propylene glycol side has been strong. But as you know, housing and automotive drives PP a lot, those two things drive the propylene markets, and we're going to keep a close eye on them.

Jeff, do you want to cover pension and what we did?

Jeffrey L. Tate
Chief Financial Officer

Sure, Jim. As we've been communicating to the Street here in recent quarters, one of the things that we're consistently looking to do is we're solidifying our financial position is look for way to derisk our pension plan. And one of those could be around annuitization as well as risk transfer of our liability. So specifically in fourth quarter, we were actually able to reduce our pension liabilities by $1.7 billion. The execution of those transactions did not require any additional cash from the company, as Jim mentioned in some of his opening remarks, the impact of that was a onetime noncash nonoperating settlement charge of $640 million in the quarter.

Operator

Our next question comes from the line of Jeff Zekauskas from JPMorgan.

Jeffrey John Zekauskas
JPMorgan Chase & Co, Research Division

Thanks. Recently, there was some cold snap in Texas. And I didn't notice that there was any penalty in EBITDA for the first quarter. Are you still assessing what the amounts might be? Or do you think that it's zero? And then secondly, you pulled out $1 billion in costs. Can you allocate the $1 billion across your three segments?

James R. Fitterling
Chair & CEO

Sure. I'll take the cold snap and then Jeff, I'll have you take a look at the costs. Look, on the freeze, Jeff, I just want to go back. Two years ago, this is the third consecutive year of freeze on the Gulf Coast. And we improved plans every year to be able to be ready for that. This year will be the lowest impact that we've had of any of the 3 years. And so the big impacts that hit us were at Deer Park and at Seadrift but almost all of that is back up and running now. So we were able to rebound pretty quickly.

You never go completely unscathed, but I think we managed through it pretty well. We haven't had to disrupt any customers because of downtime. And I think we're going to recover pretty strong here and be running hard by the end of this month. So I feel that we've navigated it pretty well. We didn't see enough of an impact that we put that into first quarter estimates.

I think our biggest delta in first quarter is we've got quite a few turnarounds in the first quarter. And so that's our biggest impact, about $200 million turnarounds in the quarter, $150 million. And then we expect some margin and some seasonality in first quarter, say, plus $200 million on margins and minus $150 million on turnarounds in the quarter. So that's the biggest net-net on the first quarter '24 guidance.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Jeff, do you want to hit how the $1 billion cost fell across the business?

Jeffrey L. Tate
Chief Financial Officer

Absolutely, Jim. In the simplest terms, about 50% of those cost savings are in P&SP 20% to 25% are in the other two segments, respectively, and we also have a little bit in corporate as well. So pretty well distributed based on our operations and our revenues as well.

James R. Fitterling
Chair & CEO

We ended the year at a $1.4 billion run rate on that. So if you look at full year '24, Jeff, we still got another $400 million coming in, in terms of the cost savings for '24. But we have $200 million of higher turnaround in '24, net-net about $200 million coming into '24. I hope that covers what you're looking for.

Operator

Your next question comes from the line of Steve Byrne from Bank of America.

Stephen V. Byrne
BofA Securities, Research Division

I'd like to get some help from you on why were the earnings in PM&C so much lower than what you were expecting, say, in the third quarter slide deck. Would you attribute is to just lower pricing, higher cost, help me on this one. And maybe in particular, coatings, you got a key customer raising price and targeting mid-single-digit lower raws your propylene costs are higher. Why not able to push more price in this segment or cut back on operating rates or something along the line. What's your outlook for that segment?

James R. Fitterling
Chair & CEO

Yes. Good question, Steve. And say, starting at the top, siloxanes and monomers in the siloxanes and silicon, the monomers and coatings and monomers are both oversupplied. And so that put pressure obviously on both volume and pricing in the quarter. And you had volumes decrease sequentially across all regions in all markets. And that's not unusual, especially in coatings and monomers, that's pretty typical in fourth quarter that we would see that. But silicones was a little bit softer.

And I think that was the biggest delta there. Year-over-year, they were down on price, which was because of that supply-demand for both siloxane and acrylic monomers. The downstream in terms of the coatings of the binders business and coating held up relatively well and actually had decent volumes in the fourth quarter. So what we supply to the downstream coatings customers look good. And as we mentioned, our view going forward is about a 3% increase this year in downstream coatings. And I'd say downstream silicones demand continues to hold up pretty well.

I'd say the one thing we're keeping an eye on is what happens with EV volume production. EV drives a lot of silicone content, a lot into batteries. And so we need to keep an eye on that. But the other segments in Silicones are also on pretty substantial growth for 2024. Those upstream monomers markets that we're going to keep an eye on. And I think things will start to tighten up a bit in China, and that will help on siloxanes.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Operator

Your next question comes from the line of Josh Spector from UBS.

Joshua David Spector
UBS Investment Bank, Research Division

I was wondering if you could comment on your polyethylene price assumptions in the first quarter. And then in your bridge, you talk about lower costs and some other moving pieces, but there's not really anything there on price. So are you assuming that you get positive pricing in February and March, like some of the data shows? Are you assuming something different?

James R. Fitterling
Chair & CEO

We've got $0.05 price increases on the table for January and February. I would say globally, we're looking pretty flat quarter-over-quarter on pricing. I'm expecting to see some price up in EMEAI. I mentioned the Suez Canal and the impact that had on Middle East volumes going up into EMEAI. So I think we're going to see that up. I think we're going to see price up in Asia Pacific. And I think we're going to see it relatively flat in the Americas. Integrated margins for the Americas ought to be about where they were in the fourth quarter. Integrated margins in Europe should be up a few cents. That's what the market markers would look at right now.

And input costs are in line. I mean, even though we had that cold snap, natural gas costs are very competitive, ethane costs are very competitive. Propane, been a little bit high because of the heating demand, but I think that may start to come off a little bit as we move through this cold snow.

Operator

Your next question comes from the line of David Begleiter from Deutsche Bank.

David L. Begleiter
Deutsche Bank AG, Research Division

Jim, you highlight the U.S. Chemical railcar loadings up 10%. What do you think is driving that? And given the strong start to the quarter, do you expect volumes to be up in all three segments in Q1? Thank you.

James R. Fitterling
Chair & CEO

Yes. Look, I think on chemical railcar loadings industrial production in the U.S. is starting to come back. U.S. has a tremendous cost advantage. Operating rates in most of the sectors are up. And I think the destocking being -- it's always hard to have enough visibility to call the end of it. But I think what we saw in December were signs that, that destocking has worked through. So any downstream demand is turning into orders, and I think that's what you're seeing with the railcar loadings.

Also remember, railcar services the Mexican market as well. Mexico has been very strong. They've benefited a lot from near shoring. And so having both China volumes up and Mexico volumes up, I think, is a positive here.

I would say on volumes, my expectations, we have volume growth for all three segments for 2024. I think that's going to start to materialize. I think plastics is underway right now. I think construction chemicals, housing-related demand on polyurethanes will probably be geared more towards the back half of the year. I think downstream silicones, Industrial

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Solutions will be throughout the year. And then we'll have a step-up in Industrial Solutions till we get the glycol 2 plant back in Plaquemine. And I think I can speak for the business here that as soon as we get that plant back up, we'll have it sold out. So we're working really hard to get that thing back online.

Operator

Our next question comes from the line of Laurence Alexander from Jefferies.

Daniel Rizzo
Jefferies LLC, Research Division

This is Dan Rizzo on for Laurence. Can we just discuss your strategy on mechanical recycling. What do you expect by 2030? And longer term, do you expect that to outgrow the market?

James R. Fitterling
Chair & CEO

Yes. I think when we look at -- if you look at what we put in the deck on polyethylene demand, our view is that both mechanical recycling and advanced recycling are going to continue to grow. There's going to be demand drivers to grow all of those segments. We're in the middle of discussions on a global plastics treaty right now. We've got a big conference in Ottawa at the end of April, beginning of May. There's another one in Korea toward the end of the year.

And I think what's coalescing around the industry and also the consumer band owners and some of the NGOs that we work with is a focus on enhanced producer responsibility as part of it to drive circularity, focus on recycled content mandates, a focus on all forms of recycling and bio-based products that are made from waste or alternative feedstocks and in some cases, like we have a project that's making bio-based materials from waste from corn production. Corn stover that’s used to convert into bio feedstocks. You're going to see demand for all forms of that in place. We've got some capacity coming up in Europe. And we started there because the enhanced producer responsibility schemes are there. Some of the mandates are there. And the demand for downstream is very strong.

That's coming when you look around the states in the United States, that's coming in Canada. I think we're going to see it come globally. So I feel that over time, you're going to see more focus on low-carbon fossil approaches like we're doing with Alberta. So how can you make plastics from fossil fuels that have zero CO2 emissions, you're going to see focus on advanced recycling and mechanical recycling and all of the above, and we're just going to place bets in different regions based on what the market demand dictates. Good uptake from the customers, we see good volume growth there. We see pricing ahead of virgin materials and of course, virgin materials are relatively low right now. And we continue to work to get plants certified with ISCC PLUS so that we can certify that recycled content for our customers.

Operator

Our next question comes from the line of Kevin McCarthy from Vertical Research Partners.

Kevin William McCarthy
Vertical Research Partners, LLC

Jim, on a year-to-date basis, we've seen polyethylene export prices rise by let's say, $0.04 to $0.05 a pound. I'm curious as to what you think is driving that, would you attribute that pattern to better demand or some of the logistics challenges that have emerged in the Red Sea or perhaps other factors? And then maybe as a related question, if you don't have any unplanned outages, how hard do you think you might be able to run your U.S. Gulf Coast ethylene-linked assets in the first quarter? Just trying to get a sense of whether the export market might be strong enough to lift up the U.S. domestic market.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

James R. Fitterling
Chair & CEO

Yes. Good question, Kevin. I would say if you look back at 2023, in the first half of the year, really the limit on PE export volumes and prices were just more on the volume side, on the supply chain side, it was the ability to get Marine Pac cargo moving. That improved considerably as we work through the year. In fact, December was one of the highest months of the year for PE export sales. And we've got the export channel full and lined up. And overall, we're running Canada, the United States, Argentina as hard as we can. We ran at rates on crackers above 90% for the back part of the year, especially in the fourth quarter.

And so to your point, unconstrained, if there's no freeze impact or anything else, we're going to be running them hard. The arbitrage is open. The volumes are there. We had up double-digit volumes for the year in plastics going China. We actually were up year-over-year in China on P&SP as well as Industrial Solutions. And I think a little bit in Coatings, Consumer Solutions, I'm sorry, in Consumer Solutions. So we were off in Industrial Solutions because of the Plaquemine outage. But we're up in -- slightly up in PU, slightly up in Consumer Solutions and up double digits in P&SP.

So I think the market is there, and that is -- everybody is talking about China being relatively light GDP last year, and we can move those kind of volumes. My expectations are taking actions that are going to help 2024 be better. As we do the walk on 2024 for the full year EBITDA walk, we've got about $300 million of margin expansion. So we start with $5.4 billion in 2023 EBITDA. We have about $300 million from margin expansion. We've got about $800 million from volume growth. It's in all three segments. We've got turnarounds, which costs us $200 million and then we've got about $100 million of improvement from equity earnings in the JVs. So net-net, you're walking it up to the 6.4, 6.5 kind of a range for 2024. And I think with soft landing scenario in the United States, that will help domestic market. We saw good domestic volume in PE as well here.

Operator

Your next question comes from the line of Frank Mitsch from Fermium Research.

Frank Joseph Mitsch
Fermium Research, LLC

And Jeff, nice to hear your voice again. Jim, really appreciate that walk up into 2024. I want to take a step back to Slide 7, where you talked about the projects mid-cycle that started up in '22 should contribute $400 million, the projects that started up in '23 should contribute another $400 million. Can you just look at those $800 million worth of mid-cycle earnings and suggest what you're anticipating they're going to contribute in 2024?

James R. Fitterling
Chair & CEO

Yes. I think, Frank, I think coming back that, and I probably didn't answer what Vince was asking very well at the beginning. I think you're probably looking back half of this year to 2025, before you start to see mid-cycle types of returns, we're not the mid-cycle yet. I mean, obviously, we're navigated to bottom here. But I think with interest rates potentially coming off in the first half of the year, some amount that stimulates some demand and mid-cycle probably get there. So maybe $300 million to $400 million of that you'll see in 2024 the balance into 2025.

Operator

Your next question comes from the line of Duffy Fischer from Goldman Sachs.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Patrick Duffy Fischer
Goldman Sachs Group, Inc., Research Division

If you could, just on the $50 million to $100 million on the equity income improvement, can you walk through your major JVs and just kind of say what's additive, what's subtractive from that number?

James R. Fitterling
Chair & CEO

Yes, sure. I think you're going to see on the Sadara JVs year-over-year should be up, I don't know, say about $100 million. Remember, they had some outages in the first part of the year. So they had some volume impact in the first part of the year. And obviously, they're seeing the same improvements in arbitrage that we're seeing out of the U.S. Gulf Coast.

You're going to see Kuwait JVs up about $60 million. Obviously, that's the strength on ethylene glycol. We saw a bit of that in the fourth quarter and their ability to run hard as well. I think the Thai JVs will be down, a lot of pressure, obviously, on naphtha cracking and they're based on naphtha cracking. So I expect them to be down about $20 million and then everything else down about $30 million. So net-net, you're up about $100 million.

Operator

Your next question comes from the line of John Roberts from Mizuho.

John Roberts
Mizuho Securities USA

And it looks like a pretty smooth transition in finance. So congratulations on the stability here. I believe you were considering some additional infrastructure divestments. Could you give us an update on that?

James R. Fitterling
Chair & CEO

Sure. And nice to hear your voice on the call. John, welcome back. Yes, we've got a number of nonproduct producing infrastructure assets that we continue to evaluate. We have in flight for this year, greater than $1 billion. I think maybe even greater than $1.5 billion of additional cash proceeds from transactions related to that. We had a very successful divestiture in 2020 of our rail and marine infrastructure assets and that is working well. And the idea there was to liberate some cash, but keep a competitive cost structure. And that same mindset is in place here.

And we think, obviously, the cash proceeds are going to help us with reinvesting in revenue-generating assets like the Alberta project as we move forward. And then the other cash-related kind of unique levers to Dow for the year is we've got the last part of the settlement from the Nova litigation, which should wind all that up, and that's about $500 million for the year. So I'd say, net-net, we're pushing north of 1.5 plus the Nova litigation to try to get those kind of unique cash levers into the company.

Anything else you want to add, Jeff?

Jeffrey L. Tate
Chief Financial Officer

Yes. Jim, the only other thing -- and good morning, John. The only other thing I would add is the working capital, structural working capital improvement opportunities that we'll continue to focus on. If you recall, it reduced 8 days and

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

made 8 days of improvement around our cash conversion cycle since spin. So tremendous work across Team Dow. We're going to look to continue to get at least another 1 to 2 days of improvement out of that, which should also give us another unique to down cash level.

Operator

Your next question comes from the line of Patrick Cunningham from Citigroup.

Patrick David Cunningham
Citigroup Inc., Research Division

You mentioned II&I, you mentioned your turnarounds maybe weighted towards the first quarter, Plaquemine coming back in 2Q, Freeport bringing on the increase in MDI distillation. Should we expect more significant sequential earnings improvement throughout the year and maybe help size where we can exit the year for the segment? And then if you could also just briefly comment on what's driving the direction of MDI and MEG spreads into 1Q, that would be great.

James R. Fitterling
Chair & CEO

Yes. I think generically, that's true, Patrick, that I think you'll see that build through the year. First quarter, obviously, we mentioned the turnaround. But second quarter, we expect to get glycol 2 back and Plaquemine will be positive. And then the third quarter will be more positive, so will ramp into the back half of the year.

On isocyanates, obviously, the biggest driver is on construction-related and durable goods related markets. Obviously, there's some impact in automotive as well, any of the rigids is where most of that volume gets consumed. So as that, those volumes start to pick up, you'll start to see MDI take off. And that's usually a driver of value across the entire portfolio, both the polyols and the MDI side of things.

So I'm hoping that we start to stimulate some of that demand in the back half of the year. And I think it was what China is doing in the markets, in the financial markets to try to stimulate some things. Could be between U.S. interest rates and what's going on in China that we see some momentum build in the back half of this year.

Operator

Your next question comes from the line of Mike Leithead from Barclays.

Michael James Leithead
Barclays Bank PLC, Research Division

Great. Two questions on your Sadara joint venture first. I believe there was a report earlier this month that Aramco is raising feedstock prices. Will that impact Sadara or should we expect input cost there to remain relatively flat? And second, EBITDA remains quite depressed right now relative to net debt at the JV. Can we expect any further restructuring or cash infusion needed over the next year or so? Or is the runway there sufficient to get back to, say, more mid-cycle type EBITDA levels?

James R. Fitterling
Chair & CEO

Yes, it's a good question. We've had no cash contributions that needed to be made to Sadara '21, '22, '23. I'm not expecting any going forward. Sadara itself, like us, when you navigate the bottom of the cycle, it's focusing on self-help actions to try to pull levers to keep costs down. There is talk in the kingdom about a raise in feedstock prices, and so

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

we'll obviously have a look at things that we can do within Sadara to offset those costs. But those haven't taken hold just yet.

And then obviously, the market comes back. Sadara is very levered to oil price. And so oil clears the market for plastics, especially because that drives the Asia Pacific operating prices and costs. And so when oil price comes up, which the expectations are that, that's going to be constructive as we move into '25 and beyond. There hasn't been a lot of investment in oil production. Demand is back above demand for oil is back above where we were pre pandemic, and yet we have big parts of the market that are not back above where we were pre-pandemic. So I think the outlook for demand is that the demand is going to come as the global markets improve, but the supply is going to lag. And so we're sitting here at $80 oil, that could firm up. You could start to see the top end of oil, be pitched more toward $90, $100 as you get into the '25, '26 time frame. And that has a pretty substantial impact to the bottom line in Sadara. So near term, we're going to navigate our cost to Sadara to keep the cost down and to be able to handle those feedstock costs longer term, obviously lean into the market as the economy improves.

Operator

Your next question comes from the line of Aleksey Yefremov from KeyBanc Capital Markets.

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

Jim, you just made a couple of comments that siloxanes capacity could be absorbed by demand growth. And to me, you sound a little more positive here than in the past. Do you think the upstream silicones market could see margin uplift maybe within the next 12 months? Or is this a longer-term project?

James R. Fitterling
Chair & CEO

Yes. If you look at the amount of capacity that's coming on in 2024 versus what came on in '23, it's down quite a bit. You've got a couple of projects. There's four projects in China that are coming on, and I think a couple of them could delay beyond 2024. The downstream markets have been continuing to grow, and we've been continuing to invest in debottlenecking. It's just the amount of upstream that's come on has added to that.

The other positive that's happened is, obviously, silicon metal prices have come down too. And so that helps on the input side of things. So I think you're going to see that as the downstream demand continues to improve and as the global economy continues to improve, we're going to see that as the project pipeline for buildings continues to grow. And remember, this goes into everything. It can go into high-rise buildings it can go into new airports and go into schools and all kinds of other construction. Those are big volume pools. I think as you start to see construction activity pick up, and then you're going to see that ramp. We're seeing strong demand in areas. Obviously, EVs were a big part of it. 5G and connectivity is a big part of it. Data centers. So as you're looking at things like how to handle cooling on data centers, silicon fluids are dielectrics and some immersive cooling applications in data centers, which are big energy hogs and need energy efficiency. That's a growth area for us as well. And then the normal downstream demand in consumer goods and beauty care products continues to be good. So I'm optimistic, maybe it may take more until '24 and into '25 to see it. But I do feel like we're going to start to move toward mid-cycle in 2025.

Operator

Your next question comes from the line of Arun Viswanathan from RBC Capital Markets.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Arun Shankar Viswanathan
RBC Capital Markets, Research Division

So that's a good segue actually to what I was thinking but it was -- if you think about the guidance that you're issuing here for Q1, it looks to be in the $1.3 billion or so level for EBITDA, give or take a little bit. But annualizing that will get you to $5.2 billion and then maybe add in a little bit for seasonality, it gets you to closer to $6 billion. Would you consider that kind of trough-like conditions? And as you move through the year in '24, what are some of the things that makes you excited that we could maybe achieve mid-cycle by -- when you're exiting the year? And I guess maybe if you can just comment on what your expectations are for China growth going forward. Obviously, we'll likely see maybe a slower growth environment for the next 4 or 5 years versus the last 4 or 5 years. Just wanted to get your thoughts on that as well.

James R. Fitterling
Chair & CEO

Yes. I think the things that are constructed to me as we're moving forward is no new capacity coming in, in Packaging & Specialty Plastics. You've got high operating rates in all the cost advantaged regions of the world. And you've got export arbitrage window open to China, as I mentioned, double-digit growth for us in China. And I think our view is we're able to move -- continue to move products. India has been strong, so we're moving product into India. Mexico has been really strong. We supply a lot of plastics to Mexico by rail. I think that's all positive.

I would say our view in the Americas, our view in Asia Pacific as China comes back, so will the rest of Asia Pacific and then our view in Europe is a bit mixed. Energy cost is better in Europe, which I think in the short term helps. It's not as big a drag as it was. But I think longer term, Europe's got some structural issues if we can't get energy costs down even lower. It puts a big weight on the consumer, which puts a big weight on demand, push additional weight on the industrial economy. So fortunately, we've got some cost advantaged positions there that help us, and I think we'll navigate through that.

Back half of the year, we've got Industrial Solutions coming back to full strength. We've got our new projects coming on. I just mentioned $300 million to $400 million from that. That's all in that volume growth number that I talked about. And then margin expansion is just the oil to gas spread on our existing business and the strength that we're going to see in some pricing in polyethylene for the year. So I think we're going to ramp in to '25 get ourselves kind of back on to a mid-cycle run rate and we're going to -- in the meantime, we're going to pull the levers like we've been doing to manage cash, keep the balance sheet strong, be the first mover in the next wave with the Alberta project, just like we were with Texas-9. This is the right time to do it. This is the time to lock in the low cost for construction, and we're ready to roll.

Operator

This ends our question-and-answer session. I will now turn the call back over to Mr. Gupta for closing remarks.

Pankaj Gupta
Vice President of Investor Relations

Yes. Thanks, Rob. Thank you, everyone, for joining our call, and we appreciate your interest in Dow. For your reference, a copy of transcript will be posted on Dow's website in approximately 48 hours. This concludes our call. Thank you again.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2024 S&P Global Market Intelligence.