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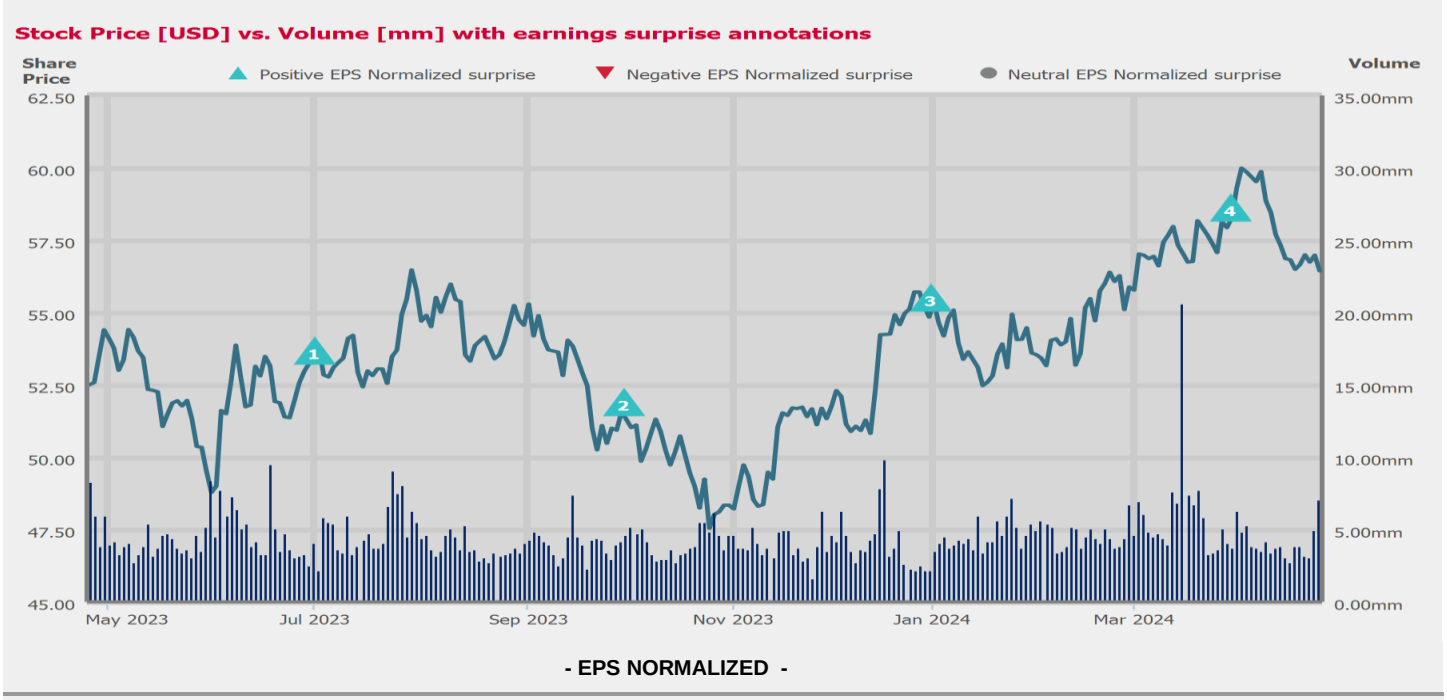
FQ1 2024 Earnings Call Transcripts

Thursday, April 25, 2024 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.45	0.56	24.44	0.75	2.99	4.35
Revenue (mm)	10722.25	10765.00	0.37	11724.21	45552.86	47932.42

Currency: USD
Consensus as of Apr-25-2024 12:16 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2023	0.71	0.75	1 5.63 %
FQ3 2023	0.45	0.48	2 6.67 %
FQ4 2023	0.40	0.43	3 7.50 %
FQ1 2024	0.45	0.56	4 24.44 %

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Presentation

Operator

Greetings and welcome to the Dow First Quarter 2024 Earnings Conference Call. [Operator Instructions] And as a reminder, this conference is being recorded. I would now like to 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'm Pankaj Gupta, Dow's outgoing Investor Relations Vice President. Leading today's call are Jim Fitterling, Dow's Chair and Chief Executive Officer; and Jeff Tate, Chief Financial Officer. Also joining is our new Investor Relations Vice President, Andrew Riker, who you may remember, was a member of our IR team a few years ago.

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 will also 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 for today's call. Jim will review our first quarter results and operating segment performance. Jeff will then provide an update on the macroeconomic environment and modeling guidance as well as the results of our annual benchmarking. Jim will then provide an update on key milestones for our long-term strategy, which positions us well to deliver growth through the cycle. 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 first quarter, Team Dow delivered sequential volume growth and margin expansion. We strategically increased operating rates to capture improving demand, we maintained pricing and we benefited from lower feedstock and energy costs. These results reflect the strength of our advantaged portfolio, including our participation in diverse end-markets and our cost advantage positions around the world. Net sales were $10.8 billion, down 9% versus the year ago period but up 1% sequentially, driven by gains in Performance Materials & Coatings and Industrial Intermediates & Infrastructure. Volume increased 1% year-over-year. And excluding Hydrocarbons & Energy, volume increased 5%, with gains in all regions. This marks the second consecutive quarter of year-over-year volume growth. Sequentially, volume increased 1% and excluding Hydrocarbons & Energy, was up 3%, led by gains in Performance Materials and Coatings.

Local price decreased 10% year-over-year and was flat sequentially as modest gains in Europe, the Middle East, Africa and India, or EMEAI, were offset by declines in Asia Pacific, the United States and Canada. Operating EBIT for the quarter was $674 million, down $34 million year-over-year driven by lower prices in all regions. Sequentially, operating EBIT was up $115 million, reflecting gains in Performance Materials & Coatings and Industrial Intermediates & Infrastructure. We delivered cash flow from operations of $460 million in the quarter, resulting in a 94% cash flow conversion on a trailing 12-month basis. This reflects our focus on cash flow generation and enabled $693 million in returns to shareholders. We also advanced our long-term strategy with our higher return, highly capital-efficient Path2Zero project in Fort Saskatchewan, Alberta, where construction started earlier this month.

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Now turning to our operating segment performance on Slide 4. In the Packaging & Specialty Plastics segment, operating EBIT was $605 million, down $37 million compared to the year ago period, primarily due to lower integrated margins. Local price declines were primarily driven by lower energy and feedstock costs globally. Volume decreased year-over-year driven by declines in the Hydrocarbons & Energy business. This was primarily due to prioritizing higher-value downstream derivative polymer sales as well as lighter feedslate cracking in Europe. Sequentially, operating EBIT decreased by $59 million as improved polyethylene integrated margins were more than offset by expected lower non-recurring licensing revenue and higher planned maintenance activity.

Moving to the Industrial Intermediates & Infrastructure segment. Operating EBIT was $87 million compared to $123 million in the year ago period. Results were driven by lower prices in both businesses, which were partly offset by 3 items: lower energy and feedstock costs, improved equity earnings and volume gains in Polyurethanes & Construction Chemicals. Sequentially, operating EBIT was up $72 million driven by improved equity earnings and lower energy and feedstock costs, primarily in EMEAI.

And in the Performance Materials & Coatings segment, operating EBIT was $41 million, up $6 million compared to the year ago period, driven by volume growth and higher operating rates. Volume was up year-over-year driven by gains primarily in the United States, Canada and Latin America. Sequentially, operating EBIT increased $102 million driven by higher seasonal volumes and overall improved demand.

Now I'll turn it over to Jeff to review our outlook and actions.

Jeffrey L. Tate
Chief Financial Officer

Thank you, Jim and good morning to everyone joining our call today. Turning to our outlook on Slide 5. We are seeing signs of improving macroeconomic conditions in several regions, which gives us cautious optimism heading into what is typically a seasonally strong quarter. That said, we are keeping a close eye on inflation, interest rates and geopolitical tensions. The U.S. is benefiting from improving industrial activity with manufacturing PMI in expansionary territory every month thus far this year. In fact, manufacturing production expanded at its fastest rate in 22 months in March. Average chemical railcar shipments were also up 4.3% year-to-date compared to last year through mid-April. And while high interest rates continue to temper building and construction activity in the U.S., building permits were 1.5% higher in March year-over-year, while existing home sales declined 3.7% in March.

In Europe, consumer spending and industrial activity remain weak with manufacturing PMI decreasing in February and March. This partly reflects ongoing geopolitical tensions in the Red Sea, which have led to higher freight costs globally. Declines in inventory levels are a promising indicator with March at the lowest levels since July 2022.

Economic activity in China continued to recover steadily with signs of improving demand. Industrial production increased 4.5% year-over-year in March. Additionally, retail sales grew 3.1% year-over-year in March, supported by consumer spending around the Lunar New Year. Nonetheless, the property sector remains weak with new home prices continuing to decline through March. Industrial activity in other regions remains constructive. In March, India manufacturing PMI reached its highest level in more than 3 years at 59.1. ASEAN manufacturing PMI reached an 11-month high at 51.5. And in Mexico, industrial production increased further in February.

Now turning to our outlook for the second quarter on Slide 6. In the Packaging & Specialty Plastics segment, higher global polyethylene integrated margins, resilient demand in packaging, as well as continued strength in the export markets are expected to drive a $150 million tailwind in the quarter. Additionally, we expect $25 million in tailwinds from our site in Bahía Blanca, Argentina, which has returned to operations following an unexpected storm in December of 2023. Lastly, we expect a $75 million headwind due to increased plant maintenance primarily in Sabine, Texas.

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In the Industrial Intermediates & Infrastructure segment, consumer durables demand continues to be muted. However, we expect margin expansion on improved MDI and polyols spreads in Europe. We also expect modest seasonal demand improvement in building and construction end-markets as well as resilient demand in pharma and energy end markets. Altogether, these represent a $25 million tailwind. In addition, we expect a headwind of $25 million due to planned maintenance in Europe and the U.S. Gulf Coast. This will be partly offset by the completion of a turnaround at a PDH unit in the first quarter.

In the Performance Materials & Coatings segment, higher global siloxane prices and seasonal demand increases in building and construction end-markets are expected to drive a $75 million tailwind in the second quarter. We also expect an additional $25 million tailwind from a turnaround at our siloxane pillar site in the U.S., while our Deer Park and PDH sites will come back up following planned maintenance in the first quarter. So with all the puts and takes, at a company level, we expect second quarter earnings to be approximately $200 million above first quarter performance.

Now moving to Slide 7. As we navigate the cycle and execute on our long-term strategic actions, Dow remains committed to our culture of transparency, accountability and benchmarking. Today, we published the results of our annual benchmarking update, once again demonstrating our strong performance and value creation relative to our peers. The results can be found on our investor website. Dow came in well ahead of peer average and broader S&P 500 with continued attractive 3-year average free cash flow and dividend yields. This reflects our commitment to industry-leading cash generation and shareholder remuneration across the economic cycle.

Our 3-year EBITDA margins and return on invested capital are above the peer median with return on invested capital, 200 basis points above our 13% target across the economic cycle. We also delivered best-in-class net debt reduction since 2019, which allows us to deliver on our capital allocation priorities even at the bottom of the cycle. Our achievements in these areas point to our continued discipline and financial flexibility. As a result, Team Dow has set the stage for us to drive earnings growth and increase shareholder returns through the cycle.

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

James R. Fitterling
Chair & CEO

Thank you, Jeff. Moving to Slide 8. Dow is well positioned to capture demand and drive earnings growth as the economic recovery takes hold. This is reflected in our competitive advantages and early cycle growth investments which are advancing while also demonstrating Dow's continued focus on operational and financial discipline. And we have a differentiated portfolio with structurally advantaged assets, global scale and low-cost positions in every region. Healthy oil-to-gas spreads, supported by growing natural gas and NGL production in North America, favor our cost advantage and ability to capture continued margin improvements as the economic recovery gathers strength.

We've also taken actions to grow Dow's earnings as we execute our near-term, higher-value, lower-risk growth investments that are expected to deliver approximately $2 billion in incremental underlying EBITDA by mid-decade. Since 2021 we have added capacity that will increase our mid-cycle EBITDA by approximately $800 million, including investments in our FCDh unit in Louisiana and alkoxylation capacity investments in the United States and Europe that serve attractive market segments such as consumer nondurables and pharma. In addition, we have invested in multiple downstream silicone debottlenecks to address fast-growing applications in Mobility Science and electronics.

We are on track to achieve the remaining $1.2 billion of our near-term EBITDA target by mid-decade, enabled by our lower risk and higher return growth projects. These investments represent a significant portion of Dow's earnings growth in the next up cycle.

Moving to Slide 9. Dow continues to execute with financial and operational discipline as we invest through the bottom of

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the chemical industry's economic cycle for long-term profitable growth. Our near-term growth and efficiency investments continue to progress with our propylene glycol expansion in Thailand achieving mechanical completion this month. We are also making good progress on our Decarbonize & Grow strategy, including our Path2Zero project in Fort Saskatchewan, Alberta. Construction began earlier this month, where we're installing the first of approximately 4,000 piles that will anchor the foundation of our new net zero cracker.

In addition, all long lead time equipment items have been ordered, further demonstrating our consistent focus on locking in cost efficiencies for this project. We also entered into a long-term agreement with Pembina, a leading ethane supply and transportation provider, to supply and transport up to 50,000 barrels per day of ethane. With this latest agreement, we have secured the majority of our cost-advantaged ethane supply with multiple suppliers in the region. Overall, I expect the Path2Zero project to deliver an additional $1 billion per year in mid-cycle EBITDA growth at full run rates over the economic cycle.

In addition, we continue to advance circularity through our Transform the Waste strategy via strategic partnerships and offtake agreements. This includes a recent joint development agreement with Procter & Gamble, which will create a new recycling technology aimed at converting hard-to-recycle plastic packaging into recycled polyethylene. The result will be near virgin quality and lower greenhouse gas emissions than virgin polyethylene. All in, we expect our Transform the Waste initiatives to generate more than $500 million of incremental run rate EBITDA by 2030.

Turning to Slide 10. Our actions since 2019 have created a stronger Dow. Over the past 5 years, we have worked hard to improve our balance sheet, to improve cash flow conversion and to build a more resilient company that maintains consistent discipline. This was demonstrated when we delivered $12.4 billion in peak EBITDA in 2021, higher than any other time frame in Dow's history. This has created the opportunity for us to invest strategically at the bottom of the cycle for long-term profitable growth. And as implementation of our growth strategy increases our underlying EBITDA, we will continue to target at least 65% of operating net income to shareholders as we move up the next peak. This means at least 45% in dividends and 20% in share buybacks.

Closing on Slide 11, I want to thank you for your interest and ownership in Dow. The team and I look forward to engaging with many of you on our 2024 Investor Day on May 16. As a reminder, the event will be hosted from the New York Stock Exchange. It will also be available via live webcast. More information can be found on our website at investors.dow.com.

During the event, we will share progress on Dow's commitment to improve underlying earnings by greater than $3 billion by 2030 that will enable raising the mid-cycle as well as the trough and peak earnings levels. We'll demonstrate our consistent commitment to operational and financial discipline, our capital allocation priorities and our leadership in attractive market verticals. And we'll show how, taken together, this creates significant value creation as we grow earnings and enhance shareholder returns over the cycle.

Before I turn it over to Pankaj, he mentioned at the top of the call that we have our incoming Vice President of Investor Relations, Andrew Riker, joining us today. I'd like to take a minute to congratulate Andrew as he takes charge and to thank Pankaj for leading the Investor Relations team over the last 3 years and also for his contributions to our upcoming Investor Day. Pankaj, we look forward to seeing your achievements in your next role leading our Dow Industrial Solutions business.

With that, Pankaj, please get us started with 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 and the following Q&A. Operator, please provide the Q&A instructions.

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Question and Answer

Operator

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

Hassan Ijaz Ahmed
Alembic Global Advisors

Jim, a quick question around global ethylene and polyethylene supply-demand fundamentals. On the surface, as I sort of take a look at global utilization rates, they seem relatively slack. But then as one sort of thinks through marginal producer economics, I mean, they seem pretty weak right now and we're obviously hearing more and more announcements of capacity closures, out in Europe. So how do you see utilization rates pan out in '24 and beyond?

James R. Fitterling
Chair & CEO

Good morning, Hassan, good question. I would say, obviously, there are differences around the globe depending on the cost positions. And we have a footprint that is very highly advantaged in North America and Latin America and the Middle East. Europe is right now where you've seen most of the focus on supply reductions with a couple of announcements of crackers being shut down. I'd also say China, there's a lot of pressure on operating rates there because the cash margins are negative and have been negative for some time and there's a big arbitrage window open between the United States and China. And so all of those things have really led to much higher operating rates in the cost-advantaged regions.

And even in Europe, where we had LPG cracking flexibility in the first quarter and propane was still a little bit high in first quarter but that advantage led to higher operating rates for us in Europe. Our overall operating rates jumped about 10 percentage points in Europe in the first quarter. So I think if you've got a cost advantage position, things are looking pretty good. Europe is a little bit islanded off right now because of the tensions in the Middle East and the Red Sea effect from shipping. And so it's relying on its domestic production for the market growth and there has been some volume growth there. And the Middle East, that has been focused more on Asian demand.

So I feel good about it. All of the -- most of the new capacity is in the market already and we're seeing volume growth, second consecutive quarter of volume growth. And we're starting to see year-over-year volume growth numbers. So it feels like we're starting to turn the quarter a little bit.

Operator

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

David L. Begleiter
Deutsche Bank AG, Research Division

Jim, last quarter, you gave a bit of an earnings walk up to about $6.4 billion, $6.5 billion of EBITDA this year. Do you still believe that number is achievable, if not beatable, given the solid Q1 results?

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James R. Fitterling
Chair & CEO

Morning David, I think with the first quarter results and the $200 million that Jeff mentioned on the call, we're right on track. I would add that, as you go into third quarter, know that we'll have another $100 million from the restart of Glycol 2 in Plaquemine, so $100 million third quarter, $100 million in fourth quarter… kind of numbers. So we're starting to see that run rate and that tracks right in line with what we need to deliver that $6.4 billion.

And then I would say the underlying chemical demand, I talked about in last quarter, it felt like destocking slowed. Inventory levels for us in December were lowest they've ever been. They continue to be low at the end of first quarter and chemical production and chemical shipments are up. And so when you look at those numbers, you say this volume growth right now feels like it's demand driven, not restocking driven. And so I think as we start to move up this thing, hopefully, the economy keeps with us here and we start to see us pick up some momentum on this trend.

Operator

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

Vincent Stephen Andrews
Morgan Stanley, Research Division

If I could just ask, in the PSP guidance for 2Q and that step up to $150 million, can you just walk us around the world and tell us sort of how you're bridging that $150 million?

James R. Fitterling
Chair & CEO

Yes. Vincent, thank you. And it's mostly a step-up in integrated margins. I think we're looking at about $0.03 a pound globally in integrated margin increase. North America -- Europe may be a little bit more than 3 cents, rest of the world is pretty flat. We've got, obviously, kind of a one-time improvement. We had Bahía Blanca down, as mentioned, in the first quarter -- for part of first quarter to the beginning of it because of the storm they had in December. But it's back. And so you'll see a $25 million improvement there. So those 2 positives are $175 million.

We have higher turnaround costs in the quarter. We're doing the turnaround at Sabine this quarter. That's about $75 million. So net-net, you've got about $100 million up in P&SP for the second quarter. And the volume numbers are good. The margin numbers are good. Exports are good out of the U.S. Gulf Coast. Product is flowing. Operating rates are good. So we're starting to see the positive impacts of all those things.

Operator

Your next question comes from Frank Mitsch from Fermium Research.

Frank Joseph Mitsch
Fermium Research, LLC

And let me also echo my congratulations to Pankaj. Best wishes in Industrial Solutions. Jim, I was wondering if you could talk about operating rates across the Dow portfolio in general. How has that -- that appears to be one of the positives in the quarter. If you could offer some commentary on your expectations for the Dow engine in 2Q and beyond on the operating rate front.

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James R. Fitterling
Chair & CEO

Sure. Yes, happy to do that, Frank. I'd say globally, at a high level, we were at about 76% which is up quarter-over-quarter. It's -- higher demand obviously drove that, lower energy costs in Europe were a big driver of that as well. The United States Gulf Coast, Argentina, Canada have been running at well north of 80%, some as high as 90% kind of rates. Europe saw the biggest individual step-up, as I mentioned previously but all regions saw a step up in rates. And so I'm optimistic that, that's just a sign of underlying demand coming. So you'd probably think -- I think I mentioned like about 10 percentage points up. That's good ballpark for the whole global number with North America, Latin America being -- continue to be strong and high rates and Europe being a big part of that step up.

Operator

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

Stephen V. Byrne
BofA Securities, Research Division

I wanted to ask a question about the hydrogen-fueled cracker you're building in Alberta. And then you also have the investments with the Mura pyrolysis feedstock. For those investments, how would you expect the unit costs of those downstream crackers to compare to, say, Texas-9 on a unit cost? And to drive the return on those projects, do you have sales agreements for the product at a premium price?

James R. Fitterling
Chair & CEO

Steve, on the hydrogen-fueled cracker, we recover part of the higher unit costs there through the price on carbon. And the team is working on as well, trying to get the premium pricing for that offtake. And I would say our view on that is that it will be there. There's a strong demand for low-carbon emission products, ethylene-based materials. And so we're working on that right now. But the returns on that project are going to be equal or greater than Texas-9 all in. And so when you take a look at it, we are very optimistic about where we're going to be with that project.

And Texas-9 was one of the projects that obviously led us to be able to deliver the $12.4 billion in peak earnings in that 2021, 2022 time frame. So I feel good about that. Again, remember, because of the scale and because of the fact that we get the hydrogen and methane as byproducts off the back of the cracker, the incremental cost is coming through the autothermal reformer, which, part of that is recovered through the price on carbon. And then we have long-term ITCs, investment tax credits, from Canada for that low carbon investment. Those 2 things will make it very competitive with Texas-9.

On Mura, Mura will be focused on, primarily on looking at the recycle demand, at which the supply for recycled polyethylene right now is much shorter than the demand. And so there are premiums in the market today for those materials. And the Mura process, in our view, is one of the more highly profitable ones because it uses the supercritical steam to change the product back into a monomer state. So we feel good about the start-up of that project.

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 share some thoughts on free cash flow for '24 since you kind of reiterated your

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expectations there on EBITDA. How do you see that tracking? And any update you can provide on any of the nonoperating items that you thought could bridge free cash flow for this year as well?

James R. Fitterling
Chair & CEO

Jeff, do you want to walk through what you think the free cash flow outlook is for the year? And I would just say, Josh, the one thing we have to remember, as we're turning the corner here, December was the low point from a pricing standpoint and we've seen successive improvements January, February, March. So we go from a use of cash -- a source of cash in the fourth quarter to use of cash in the first quarter. But as we make that turn and earnings improve, we'll start generating the free cash flow out of higher earnings.

Jeffrey L. Tate
Chief Financial Officer

Yes. Well said, Jim. Good morning Josh, building on Jim's statement there, the other thing I would mention is that we've also started to see, as the volumes have been improving, we're seeing sales ramp up and we saw the sales ramp up throughout the quarter. So our receivables are also ramping up as well from a working capital standpoint. We're also going into a heavy turnaround period as well, which we anticipated. So all of this is in line with our expectations and our projections, especially for the first half of the year in terms of the working capital uses of cash that we would expect and have.

But as Jim mentioned, as we go into the second half of the year, we continue to see the volume growth and the volume ramp-up in the sales leading to earnings growth that will get us into a really good position as we think about our cash flow on a full year basis. And we'll continue to have what we like to call unique to Dow, cash levers. If you look over the past several years, we have had anywhere from $1 billion to almost $3 billion on an annual basis of cash levers that we've identified and executed on. And you can expect that to be very similar in 2024.

As we work on our Nova judgment, which we've talked about in the past, we continue to evaluate a number of our nonproduct producing assets that we have across our portfolio as well. And we're going to continue to focus on structural working capital improvements that we can make while also looking at opportunities to get cash out of our joint ventures.

Operator

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

Michael Joseph Sison
Wells Fargo Securities, LLC, Research Division

Nice quarter. Congrats, Pankaj, again. In terms of 2Q volumes, will Hydrocarbons & Energy be a headwind again? And I guess, how much, I'm just curious on sort of the core volume growth for P&SP. And then just quickly curious on siloxanes if -- why you think there could be improvement in 2Q versus 1Q?

James R. Fitterling
Chair & CEO

Sure. I think on Hydrocarbons & Energy, I would say, as we went into first quarter because we had -- obviously Bahía had been impacted by the storm and because we had the arbitrage, obviously, to China and wanted to move more product. We elected not to move materials into the broader market and just focus on higher operating rates. So sometimes byproduct sales are not as high off the crackers, especially for cracking light like we were in Europe and in North America. And so that leads to less volume of byproducts to sell. And sometimes, it's running the derivatives

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harder.

As I mentioned, volume was up 5% on derivatives in first quarter and that was just -- we were moving that ethylene through the derivatives and making more product. I expect that will continue. So we might see Hydrocarbons & Energy be a little bit less but I think you're going to see improved margins on those volumes. And the team is working hard to continue to deliver on the volume growth numbers. We had a very good first quarter result and we've got strong volume as part of that second quarter number plus the higher integrated margins. Siloxanes price in China has moved up and demand for the downstream products is good, especially when you think about things like electronics, even continuing into automotive, hybrids and EVs both drive good demand, data centers, chips, thermal management for silicones is big.

So the only thing that's a little bit slow is on the construction side. And so you've got higher operating rates in China. You've got better siloxane pricing. We've got personal care markets that are moving into positive territory. So I would say, before we even see a big step up in building and construction, those are already starting to improve.

Operator

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

Jeffrey John Zekauskas
JPMorgan Chase & Co, Research Division

In your Industrial Intermediates & Infrastructure forecast, you have sales going up sequentially 1% or 2% and you've got your EBITDA flat sequentially. And normally, there's seasonal strength in the various construction markets. Why is your forecast so conservative? And then secondly for Jeff, how many shares will be issued? Or what's the amount of options and shares issued that will affect the share count in 2024?

James R. Fitterling
Chair & CEO

Jeff, I think the biggest thing, when you look from first quarter to second quarter on II&I is because of the Glycol 2 situation in Plaquemine. We had some insurance recoveries in the first quarter that don't recur in the second quarter. So that creates what looks like a bit of a headwind. I think the underlying business is good and the underlying demand is good. If you look at Polyurethanes & Construction Chemicals, obviously, we've seen a step up in Europe and in operating rates. Sadara is also doing more of the marketing of some of those materials and so we see a little bit less volume coming through Sadara, from Dow marketing the Sadara offtake. So that has a little bit of an impact. But I would say -- our view is, we're still seeing construction slightly better and we're seeing, obviously, Europe much better cost position and that's driving the improved operating rates and just that insurance delta is probably the biggest thing. Jeff?

Jeffrey L. Tate
Chief Financial Officer

Jeff, in terms of the issuances for the full year and this then captures options, deferred stock, 401(k) plan as well as Dow employee stock purchase plans. We're looking at approximately 11 million shares on a full year basis.

Operator

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

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Kevin William McCarthy
Vertical Research Partners, LLC

Jim, I'd like to ask you about your thoughts on the likely pace of capacity rationalization across the global ethylene chain. You mentioned the cash negative margins in China today. Obviously, we've seen some of your competitors announce rationalizations in Europe in recent weeks. So my question would be, relative to prior cycles, do you think we're likely to see more supply come out of the equation this cycle, based on a combination of the current energy regime in Europe and obviously a powerful drive to decarbonize?

James R. Fitterling
Chair & CEO

Kevin, always hard to predict exactly the pace that things are happening. But we've been under pressure on -- the high-cost assets have been under pressure from a cash cost standpoint for some time. So we're -- it's normal around this time you would start to see retirements. The thing that we should consider when we're looking at our assets likely to be retired, the age of the assets and the older the asset in general, you get a couple of things, those unit costs are not as competitive. It's maintenance costs start to ramp up.

And so you have to question putting in big maintenance dollars on top of that asset. And then depending on the environment you're in, CO2 and the emissions off of those assets and what does that do to you longer term because there is a cost in Europe, obviously, for CO2. And if you're not going to abate that, then you have to take long-term decisions about that. So I think that's why Europe has seen the first moves. And obviously, as we've talked about before, there are a lot of policies in Europe that are continuing to drive costs up. So we've seen it not just in petrochemicals but we see it in steel. We see it in other energy-intensive industries.

I think we've been fortunate that we are advantaged in Europe because of our ability to crack LPGs and that's helped us tremendously. In China, some of those assets are newer and a lot of state-owned enterprises there. So it may not be at a pace that you would see the changes in Europe. But we just have to keep an eye on that. I think nobody wants to run when you're bleeding the kind of cash that we're talking about, between $100 and $200 a ton. That's pretty ugly territory. So I think you'll continue to see some changes.

Operator

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

Kevin Estok
Jefferies LLC, Research Division

This is Kevin Estok on for Laurence. Just to touch back on silicone trends. I was just wondering if you guys have seen any visibility into restocking in Europe and whether you've seen maybe any green shoots in construction globally.

James R. Fitterling
Chair & CEO

No, I haven't seen big signs of restocking in Europe. I would say on construction trends, we are starting to see some positive things happening. When you take a look at existing home sales, even though some of the year-over-year trends are down, we're starting to see some marginal improvements, building permits are starting to tick up, which is good. So new homes -- there's a need for new homes in North America for sure. And so you're going to start to see that demand.

And what the team says to me is that when we start to see interest rate declines, we see a couple of interest rate declines in a row, you tend to start to see a pretty immediate uptick in the downstream demand for products that are in our polyurethanes business, our silicones business or coatings business. So we're watching closely for that. But I feel

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like this is more underlying demand driven, some of the markets I talked about earlier, electronics, data centers, automotive, anything that has to deal with energy and thermal management. Those have been strong. Personal care is strong. Fair amount goes into infrastructure. Infrastructure is obviously still good. So as soon as we see some pickup in the housing, I think we're going to start to see another step change.

Operator

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

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

Yes. Just a question around your coatings and monomers business. You had volumes up but when you look at a lot of your big competitors -- or not competitors, customers who have announced already, PPG, Sherwin, Axal, their revenue was all down in Q1. What's your sense for what's happening in the coatings market this year? Are you guys overshipping, do you think, in Q1 for where the demand level for paints will be this year? And then just how do you see pricing trending in that business for you guys?

James R. Fitterling
Chair & CEO

Yes, good morning Duffy. I don't think there's any overshipping or stocking going on there. I think, obviously, some customers are more exposed to the contractor business and that's very much driven by new homes and new construction. And then there's the DIY segment. And we're pretty heavily impacted by the DIY segment, so painting existing homes or when existing homes are sold. And so we tend to see that -- that volume tends to help us. I think, obviously, we had a very strong fourth quarter. We had some turnaround activity in first quarter and still had pretty good numbers. So I think we're well positioned for the peak of the season and second and third quarter. And also some of the monomers demand from time to time can be an added positive on that. And so it doesn't all necessarily mean it's downstream coatings. Some of the monomers going into other markets could help us out a little bit, too.

Operator

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

John Ezekiel E. Roberts
Mizuho Financial Group, Inc.

And congrats as well to both Pankaj and Andrew on the new roles. Jim, there were some reports about European warehouses and ports being jammed again with your customers' products. Do you think there's supply chain inventory building again downstream in Europe?

James R. Fitterling
Chair & CEO

Any particular products, John, that you're thinking of?

John Ezekiel E. Roberts
Mizuho Financial Group, Inc.

Just the economic magazines are talking about because of the Red Sea issues, just a lot of safety stock, I guess, being built up again across some supply chains.

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James R. Fitterling
Chair & CEO

I see. I haven't seen it in plastics for sure. I don't know if we've seen any of that in polyurethanes or construction chemicals. Our days of inventory are low. I mean, we're at 41 days of sales in inventory, which is 1 day better than we were in fourth quarter. So I'm certainly not seeing it in our case. And we're pretty focused in Europe on the domestic market. We're not -- we don't rely on Europe as an export hub. So I think that's to our advantage there. The Red Sea, I believe, is going to be the way it is for the next -- for the rest of the year probably. I mean, if things were resolved today, I think it would take about 6 months for the shipping channels to move back around. So I'll just -- we'll just have to keep an eye on it. It hasn't had an impact on us so far. And we're not exporting out of there. So -- and we're still expecting good operating rates in second quarter.

Operator

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

Patrick David Cunningham
Citigroup Inc., Research Division

You called increased demand in functional polymers for the first time in a few quarters. Can you speak to some of the specific areas of strength or products for which you're seeing increased demand? And you've also called it out as the source of some higher return, high EBITDA contribution, incremental growth projects. How meaningful is that benefit in 2024?

James R. Fitterling
Chair & CEO

Yes. Functional Polymers is going to primarily be driven by infrastructure markets. You think wire and cable is big, automotive is big, golf balls is a big part of it. Footwear sales are improved. So all those areas are very robust. I'd say the power demand, electric -- you hear about it, AI, data centers but just beyond that, the energy transition, electric grids, installations of new, it could be wind, it could be offshore wind, it could be a solar farm, it could be a telecom center, it could be a data center, it could be replacement of wiring in the existing grid.

All of that takes the products that we sell and we're the market leader in wire and cable jacketing. So that's been big. And then I think we're kind of set up for year-over-year improvements on footwear, which was a little bit slow last year. And then infrastructure also would include things tied to -- imagine membranes for aligning water basins, water treatment basins, membranes for roofing replacement. We do a lot of membranes into cool roofing for building efficiencies. So when you put a new flat roof on a building, you'll see a lot of these very white, light color roofs. We work with our customers who make that material and install those. There's a high demand for that and that's continued and commercial building and retrofits of anything from an energy efficiency standpoint still continues to be high.

Solar PV, I should mention, we've got a big new piece of business for solar PV encapsulation. And we put on some of the outer layers that protect the solar panels. And so this is a product that is very durable and long-lasting and it's really picked up over the last couple of years. So those would be the big drivers.

Operator

Your next question comes from the line of Chris Parkinson from Wolfe Research.

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Christopher S. Parkinson
Wolfe Research, LLC

So Jim, there's been a lot of back and forth in the buy and the sell side communities about the $0.03 increase for April and then obviously some preliminary ideas for May. Just, where we stand right here, right now, given the U.S. macro, given where you anticipate USGC operating rates to be on a sequential basis, what's Dow's view of this? We all know what the consensus view is but what's your view in terms of how things play out during the second quarter and how that ultimately sets the tone for the second half?

James R. Fitterling
Chair & CEO

We're moving up in the second quarter. I would say it almost moved up that $0.03 at the end of the first quarter. And the numbers have continued. The macroeconomic indicators have continued to get stronger, not weaker. So I think with the volume that we're seeing on the downstream derivatives with improved economic business and the consumer still being strong, I think you're going to see it move up in the second quarter. So I think we're very firm on the 3 cents in April. And as I mentioned, we started at the low point at the end of December and we just saw steady improvement through the first quarter. And so I think we're off to start the second quarter at a much higher rate and see some momentum as we move through that quarter.

Operator

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

Michael James Leithead
Barclays Bank PLC, Research Division

I wanted to ask a follow-up to an earlier question on cash flow, maybe for Jeff. I guess, if you hit your EBITDA targets for this year, are you forecasting working capital to be a use of cash or a source of cash this year and to roughly what magnitude?

Jeffrey L. Tate
Chief Financial Officer

Mike, yes, we are actually looking at it still being a use of cash on a full year basis as we work our way through, again, the recovery for a number of the dynamics that I mentioned earlier in relation to Josh's question here. But again, as we see the earnings improve based on the volume improvements that we're anticipating, right, we will start to turn that corner. But coming from where we're coming from on our working capital today, it will be a use of cash on a full year basis.

Operator

Your next question comes from the line of Aleksey Yefremov from RBC Capital -- sorry, KeyBanc Capital Markets.

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

I want to come back to silicones. Was the improvement that you saw more on the upstream silicone side or downstream? And as a follow-up, where are your downstream silicones margins relative to your mid-cycle expectations? And therefore, what's the sort of optionality for downstream silicones improvement?

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James R. Fitterling
Chair & CEO

Aleksey, it's from both. We saw better demand on siloxanes and better pricing and we saw better downstream. We saw improvements in building and infrastructure, which were primarily seasonality driven. We saw gains in personal care. We saw gains in industrial and chemical processing, where some of the products are used as intermediates. We saw gains in mobility and we saw gains in consumer electronics. So all the downstream markets were up. The siloxanes demand was up. The operating rates were up. The pricing on siloxanes were up. So it was pretty balanced on both sides.

Operator

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

Arun Shankar Viswanathan
RBC Capital Markets, Research Division

I hope you guys are well and good working with you, Pankaj, as well. And so I guess my question is, you're on a run rate now of, say, $6.3 billion, $6.4 billion, $6.5 billion of annual EBITDA. Do you still think maybe mid-cycle level is around $8 billion? And if that is the case, how do you bridge kind of going from $6.5 billion to $8 billion, is that -- that $1.5 billion, would -- are there any discrete items maybe that you'd call out as far as capacity additions? Or is it mainly going to be volume recovery based?

Jeffrey L. Tate
Chief Financial Officer

Yes, good morning Arun, I think you're right on top of the run rate. So no comments there. I do think mid-cycle -- I mean, our view of mid-cycle is probably closer to $9 billion. And so to get to that mid-cycle run rate, obviously, we have to have another couple of step-ups to get there. Volume is a big part of it. So as I mentioned, all the projects, on the call that some that we've already put in place that equal $800 million of the step-up and the rest that we're in flight right now, that's another $1.2 billion of step-up. So that $2 billion of improved margins is all volume.

And most of that CapEx is either been or will be finished this year and beginning of next year. So I feel good about that. Obviously, the Path2Zero in Alberta comes later. So I think you can see that $1 billion more towards as we're getting to the next peak. That's a '27 to '29 time frame where that's coming in, '27 is Phase 1, '29 is Phase 2. And so if we've got our timing right and that's what we intended, was we got that up and running before we get into the next peak. And so I think we've got the line of sight to the volume that's going to come from here to mid-cycle. When we get to Investor Day on May 16, we're going to unpack all that volume and that trajectory. And then we've got the line of sight into the stuff that gets us greater than $3 billion by 2030, which is next peak type economics.

And from where we are, that's excellent growth rates for both of them. And so I feel like we've been through the worst of it here on the slowdown in the cycle. And so it should be more upside than downside from here out.

Operator

That concludes our question-and-answer session. I will now turn the conference back over to Pankaj Gupta for closing remarks.

Pankaj Gupta
Vice President of Investor Relations

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

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

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