

# Dow Inc. NYSE:DOW

## FQ4 2024 Earnings Call Transcripts

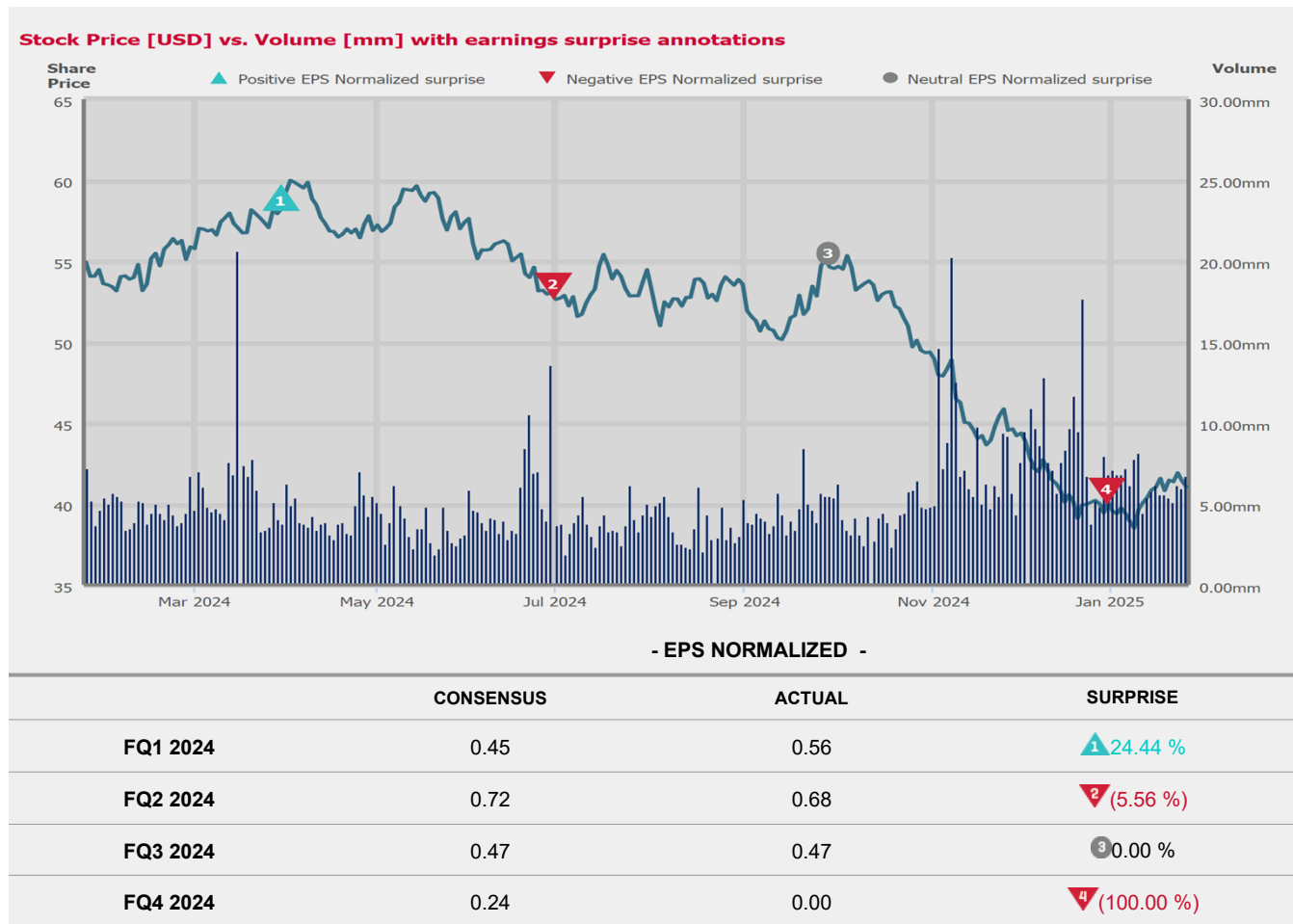
Thursday, January 30, 2025 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FQ1 2025-	-FY 2024-			-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.24	0.00	▼ (100.00 %)	0.44	1.98	1.71	▼ (13.64 %)	2.04
Revenue (mm)	10533.02	10405.00	▼ (1.22 %)	10284.90	43084.59	42964.00	▼ (0.28 %)	43368.50

Currency: USD

Consensus as of Jan-30-2025 2:07 PM GMT



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# Call Participants

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# Presentation

## Operator

Greetings, and welcome to the Dow Fourth Quarter 2024 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, Andrew Riker. Mr. Riker, you may begin.

## Andrew Riker

*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 Andrew Riker, Dow's Investor Relations Vice President. Leading today's call are Jim Fitterling, Chair and Chief Executive Officer; Jeff Tate, Chief Financial Officer; and Dow's recently appointed Chief Operating Officer, Karen S. Carter.

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 that is posted on our website.

On Slide 2 is our agenda for today's call. Jim will review our fourth quarter and full year results. Karen will provide an overview of our operating segment performance, and Jeff will share an update on the macroeconomic environment and our modeling guidance for the first quarter. Jim will then provide details on the intentional actions Dow is taking to navigate the prolonged economic downturn and close out the call. Following that, we will take your questions. Now let me turn the call over to Jim.

## James R. Fitterling

*Chair & CEO*

Thank you, Andrew. Beginning on Slide 3. There's a lot to unpack in our results this quarter. So let me first walk through the headlines. In the fourth quarter, Team Dow delivered our fifth consecutive quarter of year-over-year volume growth despite continued weak macroeconomic conditions.

Net sales were \$10.4 billion, which is down 2% versus the year ago period and reflects pricing pressure seen across the industry in the quarter. Local price was down 3% year-over-year and sequentially, with declines across all our operating segments. Operating EBITDA was \$1.2 billion which is approximately flat compared to the same period last year.

Cash flow from continuing operations was \$811 million, resulting in free cash flow of \$44 million. Returns to shareholders totaled \$492 million of dividends in the quarter, and our total CapEx spend was \$767 million. As you saw in our numbers this quarter, we also had a noncash tax adjustment impacting net income and EPS. Jeff will provide more details on that later in this call.

Throughout the quarter, we announced additional actions that continue to support the optimization of our global portfolio for growth while maintaining a best owner mindset. For example, we continue to ramp up operating rates at our Texas-8 cracker and Glycol-2 unit.

We completed the sale of our flexible packaging laminating adhesives business to Arkema for an enterprise value of approximately \$150 million, and we just signed a definitive agreement with Macquarie Asset Management for the sale of a minority stake in select U.S. Gulf Coast infrastructure assets for which we expect to receive cash proceeds of up to \$3 billion. And driven by persistently weak global macroeconomic conditions, we announced a strategic review of select European assets, primarily in our Polyurethanes business, where demand has been structurally challenged over the past five years, making it the highest-cost region for several of our key businesses.

We are also postponing a maintenance turnaround at one of our ethylene crackers in Europe. This decision will result in us idling this asset starting in the second quarter until market dynamics improve. And today, we announced targeted actions to reduce our costs by \$1 billion and our CapEx by \$300 million to \$500 million. Collectively, the additional actions are focused on reinforcing our long-term competitiveness as we continue to navigate this prolonged economic downturn.

Turning to Slide 4. In 2024, Team Dow continued to advance both our near-term priorities and our long-term strategy to become a stronger, more innovative company. We delivered net sales of \$43 billion, operating EBIT of \$2.6 billion, and year-over-year volume growth of 3%, excluding merchant hydrocarbon sales.

Earlier in 2024, we began construction at our Path2Zero investment in Fort Saskatchewan, Alberta. When complete, the project is expected to generate approximately \$1 billion in incremental EBITDA annually by 2030.

Dow is also recognized externally through industry-leading awards and certifications. Last year, we earned 12 Edison Awards for innovation and Great Place to Work® and Fortune named Dow as one of the top 25 World's Best Workplaces™. Team Dow navigated several challenges over the past year, including weather-related and supply chain disruptions and continued uncertainty in many regions and markets that we serve.

And in response to evolving market dynamics and sluggish demand recovery in Europe, we demonstrated our best-owner mindset with more than 20 proactive actions to address higher-cost assets.

I remain confident in our Company's ability to foster a sustainable future, achieve long-term profitable growth and enhanced shareholder returns.

Now I'm pleased to turn it over to Karen S. Carter, Dow's Chief Operating Officer, who will provide an overview of our operating segment performance on Slide 5.

**Karen S. Carter**  
*Chief Operating Officer*

Thank you, Jim. I'm pleased to join you all today. And before I begin, I'd like to mention what an honor it is to be named Dow's Chief Operating Officer. I look forward to engaging with many of you, our owners, in the near future.

In my more than 30 years at Dow, I have progressed through the organization to most recently leading P&SP, the Company's largest operating segment, and I have worked across a broad range of businesses and functions, including global leadership positions within the Building and Construction and Consumer Electronics end-markets as well as Dow's polyethylene franchise. This has given me a deep appreciation for our Company's competitive advantages, the strength of our innovation engine and our commitment to delivering profitable growth.

As COO, my priorities are to further strengthen our customer engagement, accelerate the commercialization of Dow's innovation pipeline and enhance reliability and productivity. I am committed to driving business and operational results, while progressing our strategic priorities to deliver long-term value for our shareholders.

Now let's move to our operating segment results. In the Packaging & Specialty Plastics segment, we entered the fourth quarter with a challenging backdrop of ample industry supply, high feedstock costs, and a typical seasonal slowdown in demand.

Segment results reflected a decrease in local price both year-over-year and sequentially. This was primarily driven by lower functional polymers and polyethylene prices as a result of the October price decline reflected in the market indices and other competitive price pressures throughout the quarter.

Despite higher demand for flexible food and specialty packaging in all regions except Latin America, volume for the segment was down 1% year-over-year. This was primarily driven by lower third-party hydrocarbon sales and nonrecurring licensing revenue.

Operating EBIT was \$447 million, a decrease of \$217 million compared to the year-ago period. This was primarily driven by lower integrated margins and licensing revenue.

Moving to the Industrial Intermediates & Infrastructure segment, we benefited from strong global energy demand as well as stable consumer and pharma demand. We also experienced typical seasonal improvements for deicing, while agricultural and coatings applications saw normal seasonal declines.

Looking at fourth quarter results, Local price declined 1% year-over-year, while volume was up 1% year-over-year. This was driven by improved supply availability in our Industrial Solutions business, as we finish ramping up our Glycol-2 unit ahead of schedule. Those gains were partly offset by continued softness in the Polyurethanes and Construction Chemicals business.

Operating EBIT for the segment increased \$69 million versus the year-ago period. Results were primarily driven by higher operating rates and improved supply availability in the Industrial Solutions business. And in the Performance Materials & Coatings segment,

volume was up 5%, with strong gains across both architectural coatings and downstream silicones. We achieved this despite global weakness in building and construction end-markets, as high interest rates continued to pressure spending and residential markets.

Operating EBIT increased \$52 million compared to the year-ago period, driven by volume gains and lower fixed costs.

Now I'll turn the call over to Jeff, who will provide an overview of the macros and our outlook.

**Jeffrey L. Tate**  
*Chief Financial Officer*

Thank you, Karen, and good morning to everyone joining our call today. Moving to Slide 6. While global GDP is expected to grow at similar levels to 2024, recent economic activity is primarily being led by the strength in service-related sectors.

In contrast, global manufacturing PMI is at contractionary levels with output and new orders declining in December. Ongoing affordability challenges also continued to pressure spending in housing and durable good sectors. These dynamics have created a two-speed economy, and we continue to monitor key indicators for signs of positive inflection in more challenged end markets.

Notably, this includes the pace of interest rate cuts in the U.S. and Europe and recent stimulus actions in China for any impact on inflation as well as end-market demand. In addition, we are watching for any impact from ongoing geopolitical volatility, including potential tariffs.

Now looking across our four market verticals. In packaging, we continue to see demand growth, especially in North America, with resilient domestic and export polyethylene demand throughout the year.

In China, manufacturing activity remains tepid and overall demand in Europe continues to be soft. Infrastructure demand remains weak globally, particularly in residential construction. In the U.S., mortgage rates are now back up above 7%, representing the highest level since May, despite lower Fed interest rates. This is driving ongoing affordability issues with U.S. building permits remaining below their 3-year average. China new home prices also declined year-over-year for the 18th consecutive month.

Consumer spending continues to be constrained by persistent inflation in the U.S. and Europe with consumer confidence levels declining in December. In China, overall retail sales were up in December, although year-over-year growth in furniture sales decelerated from the prior month. And in mobility, higher auto sales in the U.S. and China were driven by discounts to clear elevated inventories and government stimulus actions, respectively.

We also saw new car registrations in the EU declined 13% in the second half of 2024 compared to the first half of the year.

Now turning to our outlook on Slide 7. We expect first quarter earnings to be approximately \$1 billion, down \$200 million quarter-over-quarter. This is largely due to higher anticipated feedstock costs, which have increased due to the severe cold snap. We expect this to pressure margins as we start the quarter.

We will also have higher planned maintenance activity in the first quarter across our three operating segments but expect full year planned maintenance activity to be roughly in line with the prior year. In addition, we anticipate our operational tax rate to be in the range of 25% to 29%, in line with our historical range. This reflects an improvement versus the fourth quarter, which was elevated largely due to higher-than-expected noncash tax adjustments. These tax items were primarily related to Argentina, which was amplified by inflation. Audit remeasurements and currency were also drivers for the fourth quarter tax rate.

Next, I'll turn to our outlook and first quarter guidance by segment.

In Packaging & Specialty Plastics, we expect higher feedstock and energy costs to outpace price increases from a timing perspective in the quarter. As a result, global integrated margins are expected to be lower sequentially. In addition, we anticipate headwinds of approximately \$50 million from higher planned maintenance activity, primarily along the U.S. Gulf Coast.

In the Industrial Intermediates & Infrastructure segment, we anticipate lower margins in our Polyurethane business from higher energy costs as well as lower catalyst sales in our Industrial Solutions business. In the quarter, we have planned maintenance activities scheduled at our ethylene oxide asset in Seadrift Texas, which will enable the startup of additional alkoxylation capacity in the U.S. Gulf Coast.

This new capacity is one of the near-term growth investments we outlined at our last Investor Day and should support higher sales beginning in the second quarter. And in the Performance Materials & Coatings segment, building and construction end-markets remain soft with high mortgage rates in the U.S. and sector weakness in China continuing to weigh on demand. However, we expect the seasonal demand uptick in first quarter to provide a tailwind of approximately \$75 million.

In addition, our regular yearly maintenance at our Monomers assets in the U.S. Gulf Coast is expected to be a sequential headwind of approximately \$25 million. On a final note, last week, the U.S. Gulf Coast was impacted by a powerful winter storm. Our manufacturing sites have managed well, but we continue to monitor any further developments, both at our sites as well as across the industry. The current guidance does not include any impact, favorable or unfavorable, stemming from the storm.

Now I'll turn the call back over to Jim.

**James R. Fitterling**  
*Chair & CEO*

Thank you, Jeff. On Slide 8, in the midst of the prolonged downturn and slower-than-expected economic recovery that our industry is experiencing, Dow is taking several key actions to further reduce our costs and reinforce our long-term competitiveness through the economic cycle.

First and foremost, we're taking additional targeted actions aimed at improving our margins. We announced today that we will implement cost reductions of \$1 billion on an annual run rate basis by 2026. These actions will be primarily focused on third-party contract labor and purchased services.

In addition, we are targeting the elimination of approximately 1,500 Dow roles. Last quarter, we announced that we would kick off a strategic evaluation of our European asset footprint, and we're on track to provide an update on this work by mid-2025. Lastly, as we complete our in-flight higher-return growth projects this year, we're also taking actions to preserve our strong financial foundation.

We intend to recalibrate our CapEx deployment to match the current demand and macroeconomic conditions, and we will do so by reducing our 2025 spending by \$300 million to \$500 million compared to our previously disclosed target of \$3.5 billion. We will keep CapEx spending roughly at these levels until we see a clear recovery materialize across broad portions of the end-markets that we serve.

Turning to Slide 9. We continue our ongoing practice of reviewing our global portfolio. Last month, Dow entered into a definitive agreement to sell 40% equity stake in select infrastructure assets to Macquarie Asset Management, a leading global infrastructure investor. We anticipate the transaction will close by mid-2025. This newly formed infrastructure-focused company named, Diamond Infrastructure Solutions, is comprised of assets that support a wide range of services at five of Dow's manufacturing sites along the U.S. Gulf Coast.

The new company will operate within Dow and has a dedicated management team with priorities in support of Diamond Infrastructure Solutions strategy. Importantly, Dow will maintain operational control to ensure our standards for safe and reliable operations are upheld. This transaction is expected to generate approximately \$2.4 billion of initial cash proceeds for Dow.

Macquarie Asset Management has the option to increase their minority equity stake to 49% within six months of closing, which would increase cash proceeds to approximately \$3 billion for Dow, if exercised. The long-term partnership leverages Dow's operational excellence and Macquarie Asset Management's world-leading infrastructure positions to generate incremental operational efficiencies as well as future growth opportunities with existing and new customers.

With enhanced financial flexibility from this partnership, Dow is in a strong position to continue to invest in growth and deliver enhanced returns to our shareholders, particularly as market conditions improve.

Closing on Slide 10. As we navigate a challenging near-term environment, we are committed to a disciplined and balanced approach to delivering our cash and capital allocation priorities. Our ability to proactively manage in an extended economic downturn will position Dow well for long-term success.

As I mentioned earlier, last week, we postponed a maintenance turnaround at one of our ethylene crackers in Europe. This decision will result in us idling this asset starting in second quarter until market dynamics improve. This reduction in planned turnaround spending will keep 2025 turnaround spending levels in line with the prior year. We will continue to match supply with profitable demand until margins improve. We continue to take proactive strategic actions to optimize our global footprint, drive operational performance and reduce our costs and capital expenditures.

In 2025, our additional cost actions and reduced CapEx spending will help us to enhance near-term cash flow, margins and earnings growth while remaining committed to our long-term strategic priorities. In addition, our signed agreement with Macquarie Asset Management further strengthens Dow's financial flexibility and the potential to generate up to \$3 billion in cash proceeds in 2025.

This transaction is consistent with Dow's best owner mindset and track record of delivering unique to Dow cash flow levers to mitigate cyclical volatility. We're optimistic that we will continue to see demand growth in attractive end-markets such as packaging, energy and electronics. And once completed, our near-term growth investments, representing higher return and quicker payback projects will enable improved underlying earnings and margins across the cycle.

With a differentiated portfolio and proactive actions to support our solid financial foundation, we are confident in our ability to deliver on all of our capital allocation priorities, including our industry-leading dividend. At the same time, we will continue to maintain our focus on operating and financial discipline to drive long-term shareholder value to ensure that we remain well-positioned for the cycle recovery.

With that, I'll turn it back to Andrew to get us started with the Q&A.

**Andrew Riker**

*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.

# Question and Answer

## Operator

[Operator Instructions]

**James R. Fitterling**  
*Chair & CEO*

Just before we get to the first question, I wanted to make a few brief comments about the tragic incident that occurred near Washington, D.C. last night. We were saddened by the news of yesterday evening's passenger plane crash. As a company with values centered on people, our hearts are heavy for all those who have been affected by this tragic event. Our thoughts and deepest sympathies are with the passengers, crew members and their families during this incredibly difficult time.

Operator, do we have the first question?

## Operator

Yes, Mr. Fitterling - your first question comes from the line of Vincent Andrews with Morgan Stanley. Please go ahead.

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

Jim, if I could just ask you to revisit the three bridge items we talked about on the last call, one of which was sort of operating rate or macro improvement. The second was the year-over-year delta in planned maintenance, which sounds like it's going to be neutral now. And then third was just sort of the start-up of Dow projects that were going to contribute. So, if you could just update us on where you see those for 2025 at this point.

**James R. Fitterling**  
*Chair & CEO*

Sure. Look, on operating rate, I would say in fourth quarter, we saw some improvements in the overall company operating rate, but on industry operating rate, we're still not in an expansionary level yet. Europe has been a big weight on that. Europe continues to be - for the industry - about 20% below pre-COVID levels across the board. And if you get into other sectors like housing-related polyurethanes, it can even be lower than that.

I'd say the operating rates in the Americas continue to be relatively strong. So, you're talking about high 80s, low 90s percent types of operating rates. The ethylene chain, stronger than the propylene chain. Housing and automotive drive a lot in the propylene chain and downstream silicones obviously doing better than siloxane. So, siloxane rates are a drag on it, mainly from capacity adds in China.

Year-over-year, we've trimmed things. Obviously, it won't show up in first quarter, but we're targeting to be flat year-over-year on turnarounds, and that was a big part of the decision to defer the maintenance on one of the crackers in Europe. Probably people don't realize that we have kind of an integration between Terneuzen, Stade and Tarragona. And so, in addition to managing the ethylene part of the chain, we have to balance the propylene part of the chain as well.

And so, deferring that maintenance will allow us to save some costs this year. It will also tighten up things from a balance standpoint around the region. So, we think that will be a net positive. And then the start-up of the Dow projects in this year, we have several projects that are in flight. We have projects in polyethylene, which are on track to start up by the middle of the year. We have a couple of projects in Industrial Solutions that are on track to start up. And then longer term, we've got our Path2Zero project in Alberta, which is still on schedule for the end of 2027.

## Operator

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

**Michael Joseph Sison**  
*Wells Fargo Securities, LLC, Research Division*

I guess what we've heard so far is 2026 overall macro demand, unfortunately, it doesn't seem like it's going to be much better than '25 -- I mean, '25 versus '24, sorry. You've got some headwinds here for higher feedstock costs and energy. You've got some cost savings.

So, if demand is unfortunately similar in '25 versus '24, I mean, directionally, should EBITDA be up, down, flat? I mean, how do you sort of look at that this year?

**James R. Fitterling**  
*Chair & CEO*

Morning Michael, good question. On '25 versus '24, obviously, a big part of the \$1 billion of cost actions we're taking are to underpin improved EBITDA in 2025. So, we've got volume growth, and I mentioned the projects that we'll have starting up this year, which all of them will be able to be sold out and be accretive from the point that they start up. So, you'll have that.

We're obviously not counting on a tremendous amount, although we've shown five consecutive quarters of volume growth. So, we're still going to keep taking advantage of our low-cost position and get our share. But I think it's pricing power is the real question. And that's the reason for the cost action is to underpin the improvement in EBITDA.

I would say you also have to think about the markets and a lot will depend on demand in the markets. In P&SP, well, I'd say in the ethylene chain in general, P&SP and ethylene oxide derivatives have continued to be strong. You see that strength in Industrial Solutions. You see that strength, although we had some pricing slip in the fourth quarter.

Overall, you see that strength in the integrated margins of P&SP. So, I think that will continue to be a positive sign. I think we'll continue to take the actions that we need to take in Europe to tighten things up there. I don't want to be doom and gloom about Europe, but I think we have to be realistic that downstream demand is not coming back.

And so, we're going to have to take actions there to tighten things up. And then, of course, cash, we're going to manage very carefully, which is why you saw the CapEx reductions that we announced to try to stay in a better cash flow position and keeping our dividend strong is one of the #1 priorities.

**Operator**

Your next question comes from the line of Hassan Ahmed with Alembic Global.

**Hassan Ijaz Ahmed**  
*Alembic Global Advisors*

A question on P&SP. I'm just trying to sort of reconcile the guidance that you guys gave and what sort of polyethylene pricing you guys are baking in there? You're clearly looking for a bit of a margin squeeze over there. And we have a variety of sort of polyethylene price hikes on the table in the U.S. contract-wise. And obviously, ethane prices have gone up as well. So, I guess a two-part question, what polyethylene prices are you baking in? And what sort of ethane pricing environment are you baking in?

**James R. Fitterling**  
*Chair & CEO*

Hassan, great lead-in for me to welcome Karen to the call and ask her to cover P&SP in those two parts.

**Karen S. Carter**  
*Chief Operating Officer*

Good morning, and thank you for the question. I think it's important to go back to fourth quarter and really look at what happened from a pricing perspective. As you know, we saw market prices go down in October by \$0.03 per pound. And then prices continued to decline throughout the quarter, really driven by non-market moves, but also contract resets that occur generally at that time of the year.

So, we're coming into 2025 with low prices. But at the same time, as you indicated, we saw input costs increase almost immediately as we got into the year. So, we do have \$0.12 per pound on the table for price increases in the fourth quarter, \$0.07 in January and \$0.05 in February. And as you indicated, we are seeing both ethane and natural gas costs come up. And so those costs are outpacing the rate at which price increases are being implemented.

But I just want to reiterate that it is really important that we are going to stand firm on our price increases. Margins have reached a place that they are unsustainable. So, you should expect to see that we are going to be resolute in getting those price increases through.

**James R. Fitterling**  
*Chair & CEO*

I also think, Hassan, that while the short-term moves and cost increases happen this time of year when the first blast of winter hits and everybody gets a little dose of reality, they also soften typically as the quarter goes on and you move into second quarter.

Natural gas production is strong. It was 106 billion cubic feet per day last year. We don't see any change in that. The ethane frac spread is \$0.50 a million Btu. That's a very good rate. I would say the only other thing is that propane naphtha advantage that slipped a bit at the back half of the year in Europe. I think it's going to start to come back a little bit, but not dramatically. So, it's another reason to balance things out in the cracker fleet in Europe.

**Operator**

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

**Jeffrey John Zekauskas**  
*JPMorgan Chase & Co, Research Division*

The global commodity polyethylene industry is oversupplied. And between you and CP Chem, you're adding another 8 billion pounds in North America. And Dow is adding half of that between now and 2030. Do you really want to add that? Or is your plan to close down your European assets so that there's no net addition? When we look at the Lyondell results in Europe, what we see is that they don't make any money. I assume that that -- they make little money, I assume that's the same for you.

So, the first question is, do you really want a net addition? Or are you going to balance additions with closure? And then for Jeff, what happened to the cash flow? That is cash flow is a couple of billion lower than it was last year. EBITDA is flat. Is that a one-time event? And how many shares are going to be issued for management comp this year to add to the share base?

**James R. Fitterling**  
*Chair & CEO*

Jeff, thanks for that. I'll take the first part on ethylene, and then I'll have Jeff comment on cash flow. On supply/demand, I think it's important to remember that what we're adding in Alberta is 2 million metric tons of zero Scope 1 and 2 emissions, ethylene and derivatives and we'll convert 1.5 million tons to zero emissions. So, 3.5 million tons of zero Scope 1 and 2 emissions ethylene. And we're in negotiations now positively moving forward with customers for the offtake for that material. So, it is a different part of the mix than what's available today.

I do think your point is valid. We're seeing actions in Europe across the industry, which would tend towards reducing capacity in Europe, which is high-cost, and there aren't any signs. I mean there's been a lot of good discussion in Europe around the Draghi report and competitiveness, but there have been no actions that indicate that energy costs or competitive positions are going to improve. So, I think you're going to see some contraction there.

And I think we have to look around the world at places that are not cost competitive and tighten up there. Our investments are in cost-advantaged regions, like we said in Alberta, you're talking about putting a cracker in the first quartile that has zero Scope 1 and 2 emissions. There's nothing of that scale anywhere in the world, for those brand owners and those customers who want that product.

Jeff, do you want to cover the cash flow?

**Jeffrey L. Tate**  
*Chief Financial Officer*

Yes. Thanks, Jim. A couple of things here on the cash flow. In the fourth quarter, we did generate \$800 million in cash from operations. And our cash conversion rate was approximately 67%. One of the things that we did intentionally do in the fourth quarter is because of our first quarter 2025 heavy turnaround activity, we did purposely and intentionally build some additional inventory, especially as some of those turnarounds are going to be in some of our high-growth areas from a business perspective.

So, some of that was very intentional, Jeff, in terms of the build of the inventory that we saw. In addition to that, we continue to maintain a really strong cash conversion cycle that we've taken out 8 days since Spin, and we continue to be very disciplined in our approach to maintaining that ability to not only get the 8 days out, but look for opportunities to get maybe another 1 or 2 days moving forward.

**Operator**

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

**David L. Begleiter**

*Deutsche Bank AG, Research Division*

Jim, on the cost savings you announced today, on the direct costs, are those permanent? Or are they somewhat temporary? And of the 1,500 roles that are being reduced or eliminated, what regions are they? I presume mainly Europe. And what businesses and functions are they attached to?

**James R. Fitterling**

*Chair & CEO*

Morning, David, on the cost saves, we're trying to get the structural costs down and keep them at a low level. So, we're trying to make them as permanent as we can. It's about 75% third-party cost saves. It's about 25% direct, which is a little bit lower on the direct percent than typical. I'd say on the third-party cost saves, we feel pretty good about our ability to get that done.

We expect to be at about a 60% run rate by fourth quarter and a full run rate by mid-next year. Regions, I would say it's a combination of regions and functions and businesses. So, regions that are under economic pressure, obviously, Europe and Asia is a focus. Functions where we've not seen productivity improvements is a focus. And then we haven't announced a lot of site closures here. Our European asset review is still underway. We'll have updates on that by mid-year. But this is not loaded with site closure costs or anything like that, which is why the charge is relatively light.

**Operator**

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

**Analyst – on behalf of Steve Byrne**

This is in for Steve. Just wanted to go back a little bit to the full year expectations. And I wonder, are there any other discrete items besides the maintenance spend that will be flat year-on-year, such as the benefit of having the Glycol-2 unit operating for the full year that can help or be a headwind for '25 versus '24?

And can you go back also on the polyethylene price increases that you spoke earlier? Just for January because there will be a nonmarket adjustment based on some trade publishers, how do you expect that to actually impact realizations in January versus December against the proposed contract price increases?

**James R. Fitterling**

*Chair & CEO*

Yes. So let me take a shot at the first half of your question, which is on the full year and the things that we should take a look at as we're looking at full year outlook. And then I'll ask Karen to talk about the polyethylene prices part.

So, first quarter margins are going to be squeezed, as we said. I would expect the exit rate of the quarter in the first quarter to be higher as we land those polyethylene prices through the quarter and as some of the feedstock costs come off. So, something in the ballpark of \$1.4 billion a quarter from second quarter to fourth quarter could be more in line with how we performed if you looked at the last year's results and the market backdrop that we've got.

And then you've got about \$300 million of cost reductions that we outlined today. Then you have the growth levers that we remain focused on. So, we've got Texas-8 ramped back up. We've got our Glycol-2 unit back up in the market. It reached full growth rates or full production rates in the fourth quarter. You see that in the results in the fourth quarter.

And then on top of that, we're counting on a little bit of help from GDP to get there. So, I think we will -- I think we will see things improve. We have a bit of -- in addition to the compression in first quarter on pricing, in P&SP, we've got the turnaround, but the full year turnaround number will be flat. Karen, do you want to talk a little bit about price and what you expect on the non-market side?

**Karen S. Carter**

*Chief Operating Officer*

Yes. So, in the first quarter, a little bit what we saw in December is we'll continue to see some contract resets. But then also, we also expect to see some non-market moves as well. But I think the key thing as you think about first quarter from a margin compression perspective is really that those feedstock costs are outpacing the rate of price increases.

And so, if you think about it this way, we have price increases that we are going to implement over the January and February time frame, but the higher feedstock costs occurred right at the beginning of the year. So, you are right. We will continue to see some market, non-market move, but again, a few more contract resets as we continue to grow our share on our volume. And then the other

headwind that Jim just mentioned is that we are going to have a few more turnarounds on the energy side, but also in Functional Polymers.

**Operator**

Question comes from the line of Josh Spector with UBS.

**Joshua David Spector**  
*UBS Investment Bank, Research Division*

I was wondering if you could talk about the risk and potential mitigation activities you could do around tariffs, specifically around Canada. I mean I think -- I assume that a lot of the tons from your facilities in Canada come into the U.S. versus export markets. I guess, first, can you clarify what that mix is? And if that is right, what can you do to mitigate the impact? Or how do you plan around this?

**James R. Fitterling**  
*Chair & CEO*

Yes. Good question, Josh. I mean I think the most important thing is what we're doing right now, which is engaged with the administration on providing data for ourselves and also for the industry to understand the situation. And we're starting to see every day like more refinement on what's happening.

I think it's pretty clear in the near term, the discussion is around getting control over immigration and the flow of fentanyl into the United States. We're relatively balanced with Canada. We trade both ways with Canada, a little bit more coming into the U.S. from a finished product standpoint, but we have product that moves both ways.

So, trying to just have an overall picture of what the energy complex and the petrochemicals complex looks like there so that we don't create unintended consequences. And I don't think it's the administration's view to do something that's going to hurt the global economy. I think they want to try to create the situation where we continue to have growth and investment here.

**Operator**

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

**Christopher S. Parkinson**  
*Wolfe Research, LLC*

Jim, I just want to dive a little deeper. I think we did it last time, just how you're thinking about some of the EU assets by country. And I think last time we were going over the Netherlands and Germany. And there are a lot of strategic reviews going on in Intercontinental Europe right now. So just trying to think about the -- how you fit into like the larger picture in terms of these developments and how they're basically panning out over the next several years.

**James R. Fitterling**  
*Chair & CEO*

Sure. That's a great question, Chris. If you look at the EU, obviously, the #1 challenge is energy competitiveness. And so relatively speaking, Spain has a decent advantage right now from an energy standpoint. So there, we're looking with our partners at Repsol and how do we reduce the combined cost between the two of us on operations in Spain.

When you get to the Netherlands, while we announced idling of a cracker and to avoid the turnaround cost this year, I don't want you to assume that that's the answer to the European strategic review, that really is just something that we have the ability to do this year to manage through the short-term situation. The Netherlands has been pretty competitive throughout, and our cost positions have been pretty good there.

We just have to look at the market for ethylene. We're a net merchant ethylene seller. We got to look at those balances, and we've got to look at the propylene market and balances, and that will drive what we decide to do there. I'd say the Netherlands as a country still very focused on energy and discussions recently, they still have a focus themselves on adding nuclear power generating capability, which I think is going to help them with their energy costs.

Germany, a lot is going to depend on this election at the end of February. I think it's shaping up that there will be a change in the German government. And if you look at what happened post COVID, Germany moved fast to take action when the Russian supply on gas was stopped, and now has five LNG import facilities operating and it's really shifted the balance on LNG imports.

However, the LNG import costs are \$10 to \$15 a million BTU into Europe. So longer term, we have to look at what else can we do in Germany structurally to get the cost down. I think it's going to require state action to make it happen. I don't think the EU is going to do something that drives this. I think it's going to require the states pushing back, and there's no state that has more heft in this discussion than Germany.

**Operator**

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

**Frank Joseph Mitsch**  
*Fermium Research, LLC*

Congratulations, Karen, on your new role. Jim, I want to ask about the II&I segment in terms of the first quarter. You're calling out \$100 million sequential headwinds, mostly from one-offs, excluding higher energy. Can you talk about what you're seeing in terms of the pace of business between the Polyurethanes and Construction and Industrial Solutions segments? One would have thought this U.S. Gulf Coast freeze would be fantastic for your deicing business, et cetera. So, can you give us -- absent kind of these one-offs, what is really going on in those businesses as we sit here in the first quarter?

**James R. Fitterling**  
*Chair & CEO*

Karen, why don't you unpack that?

**Karen S. Carter**  
*Chief Operating Officer*

Yes. No, thanks for that question. So, if I look at the first quarter, and I'll take Polyurethanes and Construction Chemicals first. We're not really seeing any signs of demand recovering despite the interest rate cuts in the U.S. and Europe. And as you know, we have several applications in that business that are really sensitive to interest rates.

So, whether you're talking about bedding and furniture, but also obviously, in the housing applications as well. And if you think about U.S. home affordability, it remains at historic lows, but then also interest rates there are above 7%. We also saw in the fourth quarter, automotive start to slow. And if you think about that from a U.S. perspective, those inventories are at 10-year highs. And so that's one of the reasons that we announced on the last earnings, the strategic review of our European footprint, really where we're looking at Polyurethanes in particular.

And so, then if I pivot to DIS there, what I would say is that overall demand really does remain stable. We are seeing some green shoots in global energy demand and also pharma demand, which is really good for us. Deicing, as you indicated, is a seasonal tailwind. So, we'll see if the cold weather continues to persist. But then one of the things that's notable in the first quarter around DIS is that we do have increased turnaround there. We're taking our unit in Seadrift down. So that will result in a tailwind for us.

So, I would say, overall, on the Polyurethane side, just continuing to see challenging market demand -- market macros. But then also on the Industrial Solutions side, with the continued ramp of Glycol-2 that's now fully back, we should see a tailwind there. But again, some of that is being muted with the turnaround that we see in first quarter.

**James R. Fitterling**  
*Chair & CEO*

I would just add, Frank, on automotive, the shape of automotive last year was a pretty strong start to the year in terms of production units. And you saw automotive, I think, being positive as they move through the middle of the year and then towards the end of the year, a lot of pull down in inventory in automotive.

So, dealer discounts and things happening, you saw China moving product in advance of the end of the year because they wanted to get ahead of tariffs. And so, we -- I don't know, but we could see similar -- something similar happen this year where automotive starts strong again, and we just have to keep an eye on what happens with inventories there and demand in the automotive sector.

**Operator**

Your next question comes from the line of Patrick Cunningham with Citi.

**Patrick David Cunningham**  
*Citigroup Inc., Research Division*

On the lower siloxane pricing environment, which is impacting PM&C, are China oversupply issues getting better or worse into 2025? And with the focus on more downstream specialties, would you anticipate taking any further actions on upstream assets? Or do you anticipate others to take actions on capacity here?

**James R. Fitterling**  
*Chair & CEO*

Morning Patrick, good question. I'd say it's getting better, but it's -- the pace of getting better is slow. And I'd say the business is taking a look at the upstream side and what they want to do in that space. The downstream demand has been good. Karen, maybe you make a few comments about how you're seeing things there.

**Karen S. Carter**  
*Chief Operating Officer*

Yes. Thanks, Jim. I mean downstream continues to grow for us quite significantly. And if you look at even last quarter, we grew above GDP, and we expect that to continue to occur as we get into 2025. I mean we are seeing really good downstream growth in markets like electronics, but also in home and personal care.

And so, on the upstream, as you indicated, we did see pretty significant capacity additions, primarily in China in the 2022-2023 timeframe. That has slowed significantly, but we're continuing to see an overcapacity situation there. Over time, though, with the higher than GDP growth in those end-market segments, we do expect it to come into balance, but we are staying squarely focused on continuing to grow those downstream applications in Silicones.

**Operator**

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

**Kevin William McCarthy**  
*Vertical Research Partners, LLC*

Jeff, I was wondering if you'd walk through your view of non-operating sources of cash flow and uses in 2025. Specifically, I'm thinking about after-tax cash proceeds from your infrastructure deal. I think you have some pending litigation with Nova, if I'm not mistaken. And then any cash sources or uses associated with your new restructuring announced today as well as the strategic review of your asset base in Europe and other items that you may care to call out?

**Jeffrey L. Tate**  
*Chief Financial Officer*

Good morning, Kevin, if you look at our cash flow for 2025, a couple of things to consider here. If you take whatever the expectations are from an EBITDA perspective for the year, I would assume right now an approximately 70% cash conversion rate over the course of the year.

We just provided a guide on the CapEx now in the range of \$3 billion to \$3.2 billion. So, on average midpoint there, \$3.1 billion. Dividend, I would make the assumption there of \$2 billion. And as we mentioned on the call, from an infrastructure proceeds perspective, that could be anywhere from a minimum of \$2.4 billion up to \$3 billion during the course of the year. Our net interest expense guide is approximately \$600 million on a full year basis. We are continuing to make good progress on the Nova judgment situation there, and we should have more to say about that throughout the course of the year. So, I would say, Kevin, those are the primary puts and takes as you think about the cash flow walk from the beginning of the year through the end of 2025.

**Operator**

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

**John Ezekiel E. Roberts**  
*Mizuho Financial Group, Inc.*

How much EBITDA is involved with the new JV with Macquarie? And your minority interest for 2024 was only \$85 million. If Macquarie goes to 49%, how high does that minority interest line item go to?

**Jeffrey L. Tate**

*Chief Financial Officer*

John, I'll take that one. This is Jeff. There is no EBITDA impact because this enterprise will be consolidated as part of our normal reporting results. But the impact will be more on the non-controlling interest line once the transaction closes. And obviously, the dividend impact on the cash flow statement will be the other sizable change that you will see over time.

So, we'll have more guidance to share once the transaction closes and you'll be able to quantify the potential impact of that at that particular point. And again, we expect by mid-year to have the transaction close.

**Operator**

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

**Duffy Fischer**

*Goldman Sachs Group, Inc., Research Division*

Two more questions on cash flow. So, Jeff, I think you talked earlier about building some inventory for your planned turnarounds in the first half. But working capital ate about \$0.5 billion last year when sales and COGS were down pretty meaningfully. So how much release do you think you can get on a full year basis from working capital this year? And then the second one is that other assets and liabilities line was a negative \$1.1 billion in cash flow last year. What's in that? And does some of that come back eventually?

**Jeffrey L. Tate**

*Chief Financial Officer*

Sure. Duffy, in regards to the first question around working capital, right now for 2025, we would make the assumption of a use of cash in the \$300 million to \$400 million range on a full year basis. Then if we look at the other liabilities line, and assets, right now, we're down about \$900 million year-over-year, and that's really primarily driven by some of the long-term tax payables and related tax audit reassessments that we had throughout the course of the year.

**Operator**

Your next question comes from the line of Michael Leithead with Barclays.

**Michael James Leithead**

*Barclays Bank PLC, Research Division*

I'll probably just put a bow on the cash questions. There's obviously been a lot of investor focus lately around the dividend, just given the ongoing trough in your current cash generation. And Dow is obviously quite proud of maintaining an industry-leading dividend based on your earlier comments and some of the actions you're taking to free up cash. So, can you maybe just lay out why Dow believes maintaining this level of dividend is sort of the best priority of cash here versus, say, using that cash for balance sheet support or even further organic growth investment?

**James R. Fitterling**

*Chair & CEO*

I'll take a shot at it, and I'll ask Jeff if he wants to add anything. But north of 65% of our owners count on that dividend. And so, we listen very carefully to what they want to see. And we have a lot of experience on how important the dividend is to our shareholders. And so that's why it's a top priority for us.

**Jeffrey L. Tate**

*Chief Financial Officer*

Yes. The only other thing I would add, Jim, is that we don't have any substantive debt maturities due until 2027. And the ones that we have in 2025, approximately about \$0.5 billion, we're in a good position to be able to support those debt repayments during the course of this year.

**Operator**

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

**Aleksey V. Yefremov**

*KeyBanc Capital Markets Inc., Research Division*

I wanted to clarify if your \$1 billion cost reduction target includes the European actions that you will be discussing in the middle of 2025? Or would those European actions be in addition to the \$1 billion?

**James R. Fitterling**

*Chair & CEO*

You'll have them in addition. I think there are some things that will probably have a little bit of overlap, but the asset discussions will be in addition to what we've just announced.

**Operator**

Ladies and gentlemen, that concludes the Q&A session for today. I would now like to turn the call over to Andrew Riker for closing remarks.

**Andrew Riker**

*Vice President of Investor Relations*

Thank you, 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.

**Operator**

Ladies and gentlemen, that concludes today's meeting. Thank you for your participation. You may now disconnect.

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