

Dow Inc. NYSE:DOW

FQ1 2025 Earnings Call Transcripts

Thursday, April 24, 2025 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2025-			-FQ2 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.01)	0.02	NM	(0.02)	0.44	NA
Revenue (mm)	10260.66	10431.00	1.66	10375.80	42653.70	NA

Currency: USD

Consensus as of Apr-24-2025 12:42 PM GMT

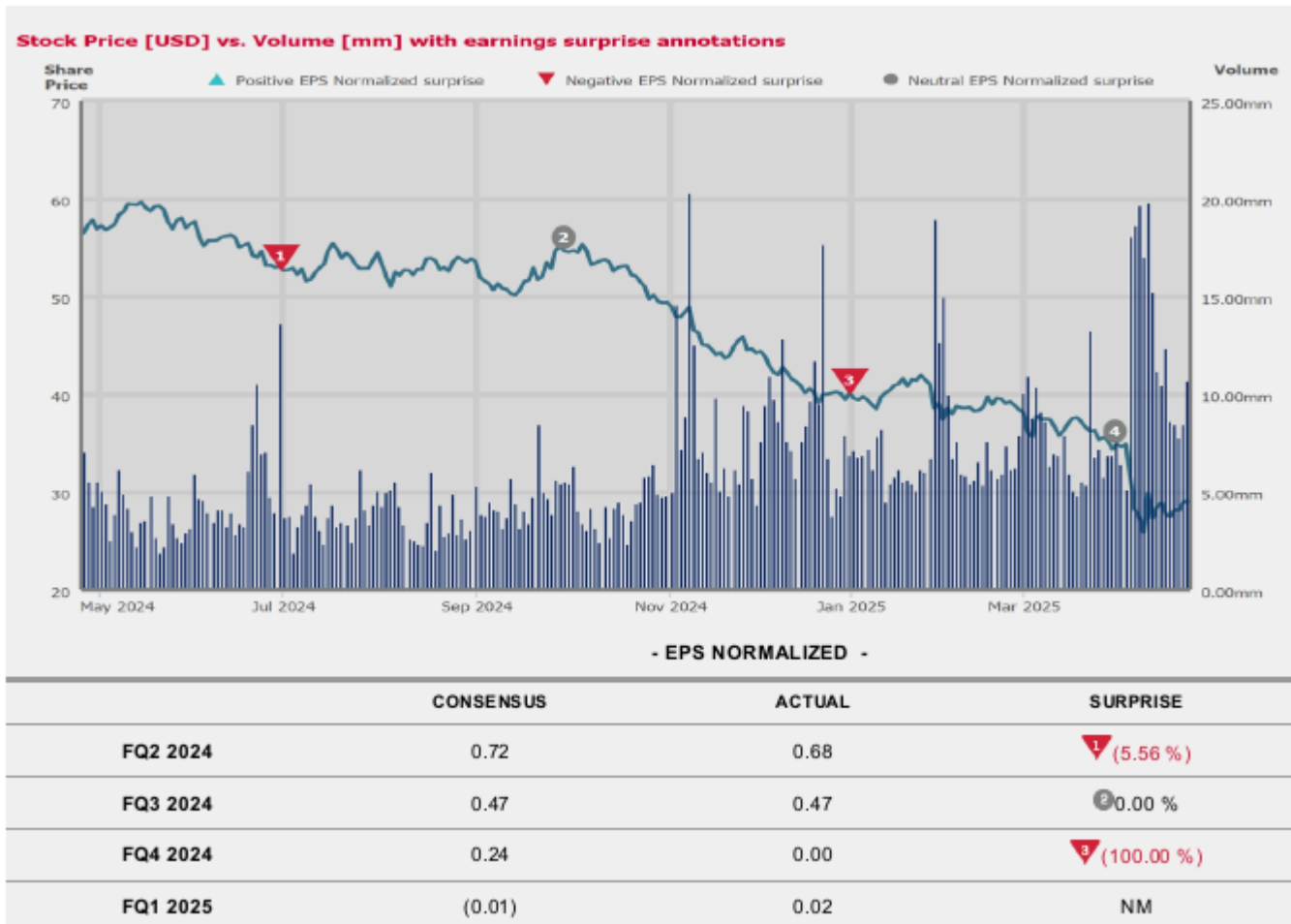


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Call Participants

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Presentation

Operator

Greetings, and welcome to the Dow First Quarter 2025 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'm 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 Karen S. Carter, Chief Operating Officer.

Please note, our comments contain forward-looking statements and are subject to the related cautionary statement 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 first quarter results and further actions we are taking to navigate the prolonged downturn. Karen will provide an overview of our operating segment performance and actions we are taking to improve business results through more efficient resource allocation. She will also provide details around how our advantaged footprint once again demonstrated relatively strong performance versus our peers and our full-year 2024 benchmarking

This includes how we expect it to provide mitigation levers that are unique to Dow against the recent geopolitical volatility we have seen. Jeff will share an update on the macroeconomic environment, our modeling guidance and details on the progress of our unique cash levers in the near term. We will close with additional comments about our strategic focus areas. Following that, we will take your questions.

Now let me turn the call over to Jim.

Jim R. Fitterling

Chair & CEO

Thank you, Andrew. Beginning on Slide 3. In the face of volatile macroeconomic conditions, Team Dow focused on operational discipline while taking actions to reduce costs and align capacity to the slower GDP conditions that are impacting our industry.

We delivered our sixth consecutive quarter of year-over-year volume growth, and net sales were \$10.4 billion, down 3% versus the year ago period. This reflects declines in all operating segments largely due to margin pressures.

Sequentially, net sales were flat. This reflected lower pricing in Industrial Intermediates & Infrastructure and Performance Materials & Coatings, which was offset by downstream growth in silicones as a result of improvements in home and personal care and electronic end markets as well as seasonally higher demand in building and construction and deicing.

EBITDA was \$944 million, which is down compared to the same period last year as volume gains were more than offset by margin compression. Cash flow from continuing operations was \$104 million and returns to shareholders totaled \$494 million of dividends in the quarter.

We are taking targeted actions to further reduce costs and support near-term cash flow in response to the ongoing macroeconomic weakness. Our actions include at least \$1 billion in annualized cost reductions by 2026 in areas like purchase services, contract labor and the elimination of approximately 1,500 Dow roles.

We're also delaying construction at our Path2Zero project in Fort Saskatchewan, Alberta, Canada. This will accelerate our CapEx spending reductions this year, reflecting a total decrease of \$1 billion for an enterprise spend of approximately \$2.5 billion versus our plan of \$3.5 billion.

In addition, we are expanding the scope of our previously announced review of select European assets, primarily in Polyurethanes. Today, we announced that we have identified 3 initial assets that we expect to idle or shut down. We remain on track to complete the full review by mid-2025, including the best options for our Polyurethanes business.

We also received regulatory approval from the Committee on Foreign Investment in the United States (CFIUS) for our strategic transaction with Macquarie Asset Management for the sale of a minority stake in select U.S. Gulf Coast infrastructure assets. We expect to receive proceeds of approximately \$2.4 billion upon closing, which is on track to be completed by May 1, with the potential for an additional \$600 million later this year.

And lastly, we received a final ruling on the pending NOVA litigation, for which we expect to receive more than \$1 billion later this year. The reality is our industry has been one of the most protracted downcycles in decades, facing a third consecutive year of below 3% GDP growth. This has been further exacerbated by geopolitical and macroeconomic concerns, which are weighing on demand globally.

In response, Team Dow remains agile, taking quick and decisive actions to reduce our costs, adjust our supply chains and protect and improve our margins. These proactive actions will help us to outperform our peers and ensure long-term competitiveness. We also remain committed to a balanced capital allocation approach over the cycle.

Let me delve deeper into the actions that we announced today, beginning on Slide 4. Team Dow remains focused on disciplined execution to improve profitability and support cash flow, as evidenced by the additional actions we announced today.

First, following a comprehensive review, we have made the decision to delay construction at our Path2Zero project in Fort Saskatchewan until market conditions improve. This decision supports our near-term cash flow and adjusts the project timing to align with a market recovery.

We remain committed to the long-term strategic rationale of the project and the growth upside that it will enable in targeted applications like pressure pipe, wire and cable and food packaging.

However, we now see a higher probability of a lower-for-longer earnings environment, which changes our expectations for when the capacity from this project will be needed. We are steadfastly focused on ensuring returns for the project are above our cost of capital. And because of that, now is the time to delay construction before spending ramps up. As a result of this, we now expect our 2025 capital expenditures to be \$2.5 billion compared to the original plan of \$3.5 billion.

In addition, we are expanding our European asset review to address the ongoing demand challenges and regulatory environment in that region. We have identified 3 initial upstream assets across each of our operating segments where we expect to either idle or shut down capacity.

These actions will help to further enhance Dow's near-term cash flow and align our asset base to the realities of our participation in the region. And importantly, they are additive to our previously announced plans to determine the best strategic option for our Polyurethanes business in Europe.

The assets we announced today include an ethylene cracker in Böhlen, Germany and chlor-alkali & vinyl assets in Schkopau, Germany that will likely result in an idle or shutdown. Additionally, we expect to shut down our upstream Siloxanes plant in Barry, the United Kingdom to focus that site on specialty downstream silicones production.

Each of these assets represents a meaningful portion of our regional capacity, which is either not fully integrated, resulting in excess merchant sale exposure or is high on our cost curve, where we have better options to supply derivative demand and optimize margins.

Next, I'll turn the call over to Karen, who will unpack our first quarter performance across the Dow's operating segments. She will also provide an overview of our business in regard to the current tariff environment.

Karen S. Carter
Chief Operating Officer

Thank you, Jim. We are moving with urgency to deliver strong operational and financial results through this persistent downcycle. We are taking a hard look at everything across the enterprise with a sharp focus on driving volume growth, capturing price and taking actions in the near term that will enhance profitability and improve margins. We will continue to accelerate our cost savings actions and are looking for additional opportunities to build on what we are already delivering.

Now turning to Packaging & Specialty Plastics results on Slide 5. During our January earnings call, we acknowledged that higher feedstock and energy prices would be a headwind for us in the first quarter. Although we expected these prices to moderate throughout the quarter, they remained elevated, leading to margin compression across the segment.

Net sales in the quarter were down compared to the year-ago period, driven primarily by pricing pressures in Functional Polymers from increased competition in Asia Pacific. And the return of our PDH unit drove a 4% volume improvement. Sequentially, net sales were flat. While we benefited from higher olefins prices in the quarter, polyethylene sales were down, primarily driven by lower sequential export sales following record high industry exports in November and December of last year.

Operating EBIT was \$342 million, reflecting a decrease compared to the year-ago period. This was primarily driven by lower integrated margins. Sequentially, Operating EBIT decreased as higher input costs pressured margins. This was partly offset by higher equity earnings at our principal joint ventures.

Next is our Industrial Intermediates & Infrastructure segment on Slide 6. Looking at first quarter results, net sales declined both year-over-year and sequentially as market conditions in the segment remain difficult, particularly in our Polyurethanes & Construction Chemicals business, which has a high exposure to durables demand.

The segment was able to deliver a 1% volume gain year-over-year, primarily driven by improved supply availability in our Industrial Solutions business. Sequentially, volume increased as a result of seasonally higher building & construction and deicing fluid demand.

We continue to experience stable demand across the energy and pharma end markets. These are key markets where we are positioning our business for growth. This includes our new alkoxylation expansion in Seadrift, Texas, which we expect to be fully operational by mid-2025. We anticipate the project will provide earnings upside in the second half of the year delivering margins in excess of 1,000 basis points higher than MEG.

Operating EBIT for the segment decreased \$215 million versus the year-ago period. Results were primarily driven by lower prices and higher energy costs, which compressed integrated margins as well as lower equity earnings. On a sequential basis, Operating EBIT decreased, driven by margin compression and higher planned maintenance activity, which were partly offset by volume gains.

Moving to the Performance Materials & Coatings segment on Slide 7. We delivered a sixth consecutive quarter of downstream silicones growth. However, overall volume decreased for the segment. This was driven by lower volumes in upstream siloxanes and acrylic monomers.

Net sales in the quarter decreased 4% versus last year. Local price also decreased year-over-year due to continued siloxanes pricing pressure. Sequentially, net sales increased primarily driven by seasonally higher demand in building and construction end markets, which comprises a significant portion of the segment's sales. We also experienced higher demand for electronics and personal care applications, which have been resilient in markets for us.

Operating EBIT was up compared to the year-ago period, driven by lower fixed costs, which were partly offset by lower prices. Sequentially, Operating EBIT increased, driven by seasonally higher demand for architectural coatings, which was partly offset by higher planned maintenance activity in North America, in preparation for the demand high point of the painting season.

Now turning to Slide 8. In addition to the comprehensive set of actions underway, we are adjusting our business to current market realities by leveraging our strategic asset footprint, global reach, low-cost positions and unmatched feedstock flexibility.

More specifically, we have a leading or low-cost position and world-class manufacturing sites in every geography with well-developed, agile regional supply chain and a deep understanding of the needs of our customers. And we are the only company with integrated polyethylene production on 4 continents.

In addition, Dow's unique feedstock flexibility allows us to optimize our assets based on regional advantages. We have the ability to crack the most optimal feed slates and have the widest range to take advantage of dynamic periods. This ability to capitalize on preferred feedstocks paired with our breadth of process technologies enables Dow to optimize what, where and how we produce our products to best serve our customers.

And while the tariff environment remains fluid, we estimate greater than 95% of our North American volume is USMCA compliant, which is an advantage for Dow. There are also areas of our portfolio, namely MDI and Silicones in North America, where we expect additional margin support from our local production as significant Chinese oversupply has forced local markets to go long.

Lastly, we have engaged in rigorous scenario planning to identify potential additional cost pressures and mitigation strategies. Altogether, our unmatched cost positions and feedstock flexibility superior product mix and geographic diversity are strong differentiators that give Dow a competitive edge today and throughout the cycle.

Turning to Slide 9. The proof of Dow's competitive edge is in our annual benchmarking results. Our industry-leading feedstock flexibility translates to value through our ethylene and propylene derivatives. This is coupled with our leading SARD efficiency and Dow portfolio advantages, which enable higher margins. This is clearly illustrated in terms of our EBITDA per pound of polyolefins capacity, which continues to deliver superior results versus competition.

The breadth of our portfolio also stands out in downstream silicon, where we grew volume year-over-year in 2024 and outperformed peers on EBITDA growth. This is just one highlight from our annual benchmarking efforts, which we published on our investor website today. The results once again highlight Dow's performance relative to industry peers as we performed in line or ahead of peers across more than 80% of the metrics we track most closely. This underscores the power of our competitive advantages and track record of solid execution in various market conditions.

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

Jeff L. Tate
Chief Financial Officer

Thank you, Karen, and good morning to everyone joining our call today. Moving to Slide 10. From a macroeconomic perspective, global demand remains well below historical average GDP levels. Recent disruption from tariffs has weighed on expectations for global economic growth as it has on business and consumer sentiment. We are closely monitoring these factors as they are increasing the probability of a longer timeline to midcycle earnings.

This vigilant monitoring is crucial as we navigate the fluctuating market conditions and ensure our actions are aligned with the evolving economic landscape. We still expect demand to be positive for the year. However, the impact from uncertain trade flows could create additional margin pressure for our portfolio, most notably against the one area where we've seen resilience for some time, the North American consumer.

Looking across our 4 market verticals, in packaging, domestic demand continues to grow in North America. Although as mentioned, we are closely monitoring it for changes due to growing inventories and inflation. We are not seeing any significant pattern changes in Chinese economic activity, and we see continued softness in Europe. Dow's global footprint with low-cost assets in all regions should position us well to navigate current market dynamics.

Across infrastructure markets, we have yet to see any meaningful inflection in housing demand, including in China as well as Europe. In the U.S., mortgage rates remain high resulting in subdued demand and the 14th consecutive year-over-year decline in building permits in March.

Increasing risks to the global economy, including the potential for retaliatory tariffs between multiple countries, is also impacting consumer markets. In March, U.S. consumer confidence declined to its lowest level in more than 4 years. And while retail sales were up in China supported by government stimulus, prices have been deflationary for 2 consecutive months.

And in mobility, higher tariffs are expected to create further affordability concerns in the U.S., although we saw a temporary spike in auto sales in March ahead of these implementations. In the EU, new car registrations in February saw their largest year-over-year decline in 6 months. China auto sales benefited from government incentives and were up 8% year-over-year in March.

Now turning to our outlook on Slide 11. In today's world, there is a high degree of uncertainty in the market, which makes this a difficult quarter to project. Until negotiations on tariffs are finalized, we expect to see delays in both purchase and investment decisions from consumers as well as corporations.

Our outlook today is based on everything we have line of sight to, understanding that we're operating through a very dynamic market in geopolitical times. Should we gain insight into substantial changes during the quarter, we're committed to maintaining transparency and will provide timely update accordingly.

Before I get into the details by segment, let me share a couple of enterprise-level drivers. Our cost reduction actions will ramp as the second quarter progresses, providing approximately \$50 million of overall benefit versus the first quarter across all 3 operating segments. Additionally, we expect \$50 million in sequential upside following recent winter storms, primarily Enzo that required us to proactively take units down, resulting in lost production.

We will see start-up costs related to our incremental higher-return growth projects in the second quarter as well as higher planned maintenance activity in Packaging & Specialty Plastics and Industrial Intermediates & Infrastructure. We expect these to be completed near the end of the second quarter, creating an earnings tailwind in the third quarter.

With our continued commitment to running our plants safely and reliably, we expect full-year planned maintenance activity to be roughly in line with 2024 levels.

Next, I'll turn to our outlook and second quarter guidance by segment. In Packaging & Specialty Plastics, we expect sequential EBITDA to be approximately \$50 million lower. This is primarily driven by higher planned maintenance activity and lower integrated margins, including fewer merchant sales, which we expect to be partly offset by the initial benefits of our cost reduction actions. In the Industrial Intermediates & Infrastructure segment, we expect second quarter EBITDA to be roughly flat with first quarter.

While we expect to see modest seasonal demand improvements and higher margins for MDI, some of this will be offset by lower anticipated pricing for MEG, driven by increased competition in Asia Pacific as naphtha prices come down with oil.

In addition, we will have costs in the quarter related to a planned turnaround and the start-up costs associated with our new alkoxylation capacity in Seadrift, Texas. This new capacity is one of the near-term growth investments we've spoken about and should support higher earnings beginning in the third quarter.

And in the Performance Materials & Coatings segment, we expect higher sequential EBITDA. This will be driven by a \$75 million benefit from seasonal demand improvements for coatings end markets. We also expect continued growth for downstream silicones, where our current expectation is to deliver the seventh consecutive quarter of year-over-year volume growth.

In summary, we expect second quarter EBITDA to be roughly in line with first quarter levels. We anticipate improved volumes, primarily from seasonality, and improved margins in certain product chains. With that, higher planned maintenance and one-time start-up costs of our new assets are expected to be an offset.

Now turning to Slide 12. Dow's commitment to financial discipline provides important flexibility in the midst of this slow growth environment and increased macroeconomic and geopolitical uncertainty. We've outlined today several proactive actions we're taking to effectively manage this extended downcycle.

In total, we expect these actions to provide approximately \$6 billion in near-term cash support. This includes our strategic infrastructure transaction unique-to-Dow cash levers, additional cost savings and reduced CapEx. More specifically, our signed agreement with Macquarie Asset Management represents a strategic partnership that has been several years in the making.

Dow sale of a minority equity stake in select infrastructure assets is expected to generate \$2.4 billion of initial cash proceeds, with closing expected by May 1. Macquarie has the option to increase their stake to 49% for an additional \$600 million within 6 months of closing, which would increase total cash proceeds to approximately \$3 billion for Dow in 2025.

The newly formed infrastructure-focused company, named Diamond Infrastructure Solutions, is comprised of assets that support a wide range of services from energy and environmental to infrastructure and pipelines for more than 70 long-standing customers. With improved operational efficiencies, we expect it will drive growth with new and existing customers while providing near-term financial flexibility for Dow.

In addition, the Court of King's Bench in Alberta, Canada issued a ruling awarding Dow additional compensation for damages incurred through 2018 related to the jointly owned ethylene asset with NOVA Chemicals in Joffre, Alberta Canada.

We expect the final resolution to come this year with cash proceeds exceeding \$1 billion, allowing Dow to recover costs from a decades-long legal process. And as Jim mentioned earlier, we now expect our total enterprise 2025 CapEx to be \$2.5 billion, a \$1 billion reduction compared to our original plan of \$3.5 billion. This new target builds on the approximately \$400 million reduction that we announced in January.

And lastly, we also announced in January that Dow would deliver at least \$1 billion in targeted cost savings on an annual run rate basis in response to the ongoing macroeconomic challenges, and we continue to push the number higher and faster. The cost saving actions aim to improve our margins and long-term competitiveness across the economic cycle, and we expect approximately \$50 million of in-period savings supporting second quarter.

As previously shared, we expect to achieve the majority of these cost savings through a reduction in direct costs of \$500 million to \$700 million, primarily focused on purchased services and third-party contract labor. We're also implementing a workforce reduction of approximately 1,500 Dow roles globally.

Our collective actions to navigate the realities of the current macroeconomic environment and deliver \$6 billion in cash support over the next 2 years enable Dow to maintain our financial flexibility. Our balance sheet remains solid with no substantive debt maturities due until 2027.

Aligned to our debt towers, we also recently completed some debt-neutral liability management to take advantage of tight spreads and extend our maturities at lower rates. We will continue to seek options where Dow can proactively take action to improve our capital structure through this type of activity or de-risking as we've done in the past.

We remain focused on delivering on a balanced capital allocation approach over the cycle. We will continue our practice of managing Dow's capital structure and priorities in order to better position the Company to create additional shareholder value.

Now I will turn the call back over to Jim to close things out.

Jim R. Fitterling
Chair & CEO

Closing on Slide 13. As our industry weathers the current challenging conditions, we're executing several proactive and decisive actions to improve margins, support near-term cash flow and optimize our global portfolio. We're doing so today in a manner that is consistent with our best owner mindset and a balanced capital allocation approach.

Our purpose-built asset footprint and our low-cost feedstock positions, primarily in the Americas and the Middle East, create a meaningful cost advantage for Dow and provide industry-leading flexibility to navigate global trade dynamics. We're focused on improving our margins by reducing our spending and matching regional supply to profitable demand.

As we've outlined throughout today's call, we have line of sight to \$6 billion in near-term cash flow improvement, including completing the launch of Diamond Infrastructure Solutions, our strategic and growth-focused transaction with Macquarie for up to \$3 billion, receiving proceeds from the NOVA judgment, which is expected to be more than \$1 billion, delivering at least \$1 billion in cost savings by 2026; delaying construction, our Path2Zero project in Fort Saskatchewan to align with market realities, which will result in reducing our total 2025 enterprise CapEx by approximately \$1 billion; and expanding the scope of our strategic review of our Polyurethanes asset in Europe by identifying 3 additional assets that we expect to idle or shut down in the region.

In addition, we are nearing the completion of our higher-return incremental growth investments in regions where we have energy and feedstock advantages. Three of these projects, one in Packaging & Specialty Plastics and two in Industrial Solutions, will begin to come online at the end of second quarter and show benefit in the third quarter and beyond.

The Dow team is closely monitoring the current uncertain macro environment, and we are taking the necessary actions to further improve our competitive position, including looking for additional ways to reduce costs and increase our competitiveness.

Our near-term strategic priorities are focused on navigating the challenges our industry is facing. By delaying the Alberta project, maintaining financial flexibility, protecting our balance sheet, rationalizing assets in high-cost regions, reducing costs and focusing on profitable growth, we are positioning Dow for long-term success through the cycle.

With that, I'll turn it back to Andrew to get us started on 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 instruction.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Vincent Andrews with Morgan Stanley.

Vincent Stephen Andrews

Morgan Stanley, Research Division

Jim, I'd like to ask you on Alberta to contextualize a couple of things. First, you noted in your prepared remarks a lower-for-longer environment. So I'm curious if the Board came to that conclusion sort of before or after April 2.

And sort of as a follow-up to that, when you talk about taking the delay on Alberta off when market conditions improve, how would you define market conditions improving? Is that a function of where spreads are? Is it a function of your S&D outlook? Is it a function of oil prices? What are the sort of KPIs you're looking for there?

Jim R. Fitterling

Chair & CEO

Vincent, thank you. Good question. Yes. So when we look at the market outlook, our original plan for Alberta was to come up in 2 phases, the first phase in 2027, second phase in 2029. And our view has been that we would be seeing a cycle recovery when that first phase come up.

I think with the situation that we're in now, with the uncertainty around where tariffs are going to land, with the impact that's having on demand; that's driving our lower-for-longer outlook on the environment. And we're at a point right now where we can make this decision to have minimal impact on the project.

So we've done a lot of groundwork. We're finishing our engineering work, we've got our long lead-time items ordered. We can pause now before we have a big ramp-up in labor in the field, and then we can push some of that work out until we see how things land with tariffs.

So we're going to revisit it on a regular basis. I'd say we won't revisit until before the end of this year, trying to make a call of ramping up next year is the right answer or if we wait after that. But I'd say we have to start seeing things moving up and the supply/demand balance is tightening up a bit, and understand how the supply chains are going to work as we adjust to this tariff environment.

Operator

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

Michael Joseph Sison

Wells Fargo Securities, LLC, Research Division

I know it's difficult to give an outlook for the full year. But if you're going to do 1.8, 1.9 or so in the first half. How could EBITDA get better in the second half? I know you have some cost savings. Maybe talk about what volumes -- what demand environment could be. Could it be worse, could it be better? But what could happen, in general, to have a better second-half EBITDA than the first half, directionally?

Jim R. Fitterling

Chair & CEO

Michael, another good question. So I mentioned on the call that we have obviously 3 projects that are completing in the second half of -- the second quarter. And so those will start to be accretive third quarter, fourth quarter capacity and Packaging and Specialty Plastics and also two additions in Industrial Solutions. And both of those are going into markets where we have a need for those products. And so I think you'll start to see that come through.

One of the pressures we saw in the first quarter was the fact that all the input costs were higher than we had anticipated because of the winter weather and the drawdown on inventories. We're starting to see that normalize in the second quarter, which you would assume.

So I think you're going to see some energy cost advantages rolling through the back half of the year. I would assume next winter, depending on what the weather forecast looks like, we're going to see the same pattern again. We're going to have cost reductions. We've got \$50 million of cost reductions coming in the second quarter. Our target for the year is \$300 million.

Karen continues to push for more and faster, but you're going to start to see that ramp up to where we get to the run rate for next year, which is full \$1 billion, so that's going to step in.

And then the wildcard, I would say, is having some visibility to where the supply chains are going to land. We have an advantage, in that we have footprint, Canada, U.S., Argentina, Middle East. We have the ability to flex the supply chain and to mitigate tariff impacts on where we export our materials, so it's very positive.

We also have the advantage that greater than 95% of everything we move between the United States and Canada is USMCA compliant. So I think those things will have a positive impact. But we just need a little bit better clarity on where these tariffs land and what that impact is on overall demand.

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 issue of tariffs, how are you thinking about the impact of the Chinese tariffs on imported U.S. polyethylene? And how that might impact domestic polyethylene prices going forward, if we do lose that export market for U.S.-produced polyethylene?

Jim R. Fitterling
Chairman & CEO

David, I'll take a shot at that, and then I'll maybe ask Karen to comment on some of the things that we're doing.

That's, I think, the big question, is all trade, not just polyethylene, but all trade between U.S., China, where is that going to land? We have a very active tariff and trade team that is engaged on all sides of that. And of course, a lot comes down to what's going to be on an exemption list and what isn't going to be on an exemption list.

So we're optimistic that some discussions will start, and we'll get some clarity around that as the quarter develops. In the meantime, we're doing things that we need to do to flex that supply chain. Do you want to speak to that, Karen?

Karen S. Carter
Chief Operating Officer

Yes, sure. I mean we are well on our way on reconfiguring our supply chain. The team has been working since really the middle of first quarter on this. And so we are able to export quite a bit more product out of Canada. And then, of course, in the United States, our low-cost position enables us to produce for the local demand.

As a matter of fact, the growth project that Jim alluded to Poly-7 that's going to start up in second quarter, is going to provide us even more flexibility to supply even more of that U.S. demand right here.

And then, of course, we've got 4 -- on 4 continents integrated polyethylene production. So think about the Middle East as well as an opportunity for us to supply demand around the world but also directly in China.

So we are well positioned. We feel good about where we are and able to mitigate directly. But again, I just want to reiterate that the indirect impact is really the biggest concern on overall demand. So we'll continue to watch that as we go forward.

Operator

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

Christopher S. Parkinson
Wolfe Research, LLC

So on one hand, the China situation, so the corollary of Dave's question. On one hand, one could argue that the current situation could potentially incentivize the Chinese to further, let's say, push a little bit harder and divest the capacity over the intermediate to long

term. And on the other hand, in the near term, there's been a lot of debate about Chinese NGL imports, given that sort of a decent amount of the capacity has also been growing and there's a debate on, obviously, the feedstock side of it.

So as far as Dow's view, understanding there are various scenarios here, how would Dow come out in terms of like those two facets that we're all kind of pondering these days?

Jim R. Fitterling

Chair & CEO

Yes. Good question, Chris. Let me start with the second half of that first.

I think the NGL imports into China, if you look at that today, you have to look in the context of what's happened with oil price. So I would say, the advantage right now would be oil and using naphtha in China. Once you look at NGL price here, exported, landed in China, converted to ethylene; you've really driven up the cost of the ethylene. So that's not going to be a very competitive position, I think we're going to have better options there.

I think on the other hand, in terms of incentivized to make more capacity, a lot really is going to depend on grades of product. I think our experience is we haven't looked at moving commodity grades of polyethylene into China for quite some time. We move more specialized grades. And so I think there's a limit to the ability to be able to produce that in the country. There's also a need for those materials to make finished products that they have to export around the world.

And so this is a balance between being able to have access at a reasonable cost to the things that they need to be able to produce finished goods for their own export demand, which is global demand, not just U.S. demand. And that's the things people are trying to navigate right now.

The domestic outlook in China isn't really driving any big support for additional capacity to be added, it's moderate at best. And so there's not a big consumer-driven uptick in China. So I think we continue to watch those two angles that you talked about and trying to see where that's going to land.

Operator

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

Christopher Silvio Perrella

UBS Investment Bank, Research Division

It's Chris Perrella on for Josh. Could you go in a little more detail about the moving parts of II&I and its outlook for the second half of the year? I know there's some projects coming online, but the underlying weakness there? And what's -- how does that play into the strategic review of the business as well?

Jim R. Fitterling

Chair & CEO

All right. I think the biggest pressures on II&I in the first quarter really were related to pricing pressures because demand is slow and higher energy costs, both in the United States and Europe. The energy costs, as I've said, are moderating. Maybe ask Karen to give a little bit of color on the outlook on what we see happening in II&I.

Karen S. Carter

Chief Operating Officer

Yes, thanks for the question. I mean if you talk about it from a polyurethane perspective, in particular, we expect the challenging macro to continue. I mean think about soft demand on durables, automotive, that's a direct impact to us as well.

Automotive growth is slowing. You also see the EV transition starting to slow as well, and particularly in North America and in Europe. And tariffs should, however, provide support for selected U.S.-produced products.

You mentioned this earlier before, like MDI, where, of course, the global market has suffered from Chinese oversupply. And so that could provide a bit of a tailwind, but the headline really on the outlook for polyurethanes and construction chemicals is that we'll continue to lean into a pretty challenging macro.

But let me switch quickly into our Industrial Solutions business because there, although we are seeing softening demand, we are seeing also pockets of stability in markets like energy, home care and pharma end markets. Data centers, as an example, is a significant growth opportunity for us, and our solutions there are used in things like thermal management.

I do though, just want to double down on the new assets that we're going to start up there here in the second quarter. In the U.S. for new alkoxylation capacity, that unit is going to focus on growth and attractive end markets for us, for home and personal care and pharma. And really, the good news around that asset is about 50% of that capacity is already contracted for. So we expect that to provide us with a tailwind going into second half.

Jim R. Fitterling
Chair & CEO

On the question about portfolio, Chris, we're going to come back towards the end of the quarter with some guidance on where we think the best option is for those European assets that polyurethanes enterprise.

I think the one thing to remember is we have low-cost positions there. We have some very strategic positions and full integration for the whole polyurethanes chain. So that's going to be the result of that exercise, just looking at what we think the best option is in the marketplace.

Operator

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

Jeffrey John Zekauskas
JPMorgan Chase & Co, Research Division

On Slide 15, you say that your expected corporate expense for the year is \$320 million. And I think your corporate expense was \$33 million in the first quarter. So you're annualizing at \$130 million. Why is that number \$320 million?

Second, cash flow from operations was \$90 million in the quarter, and you did have a working capital increase, but the cash flows were low. So what's the cash flow that you expect in the second quarter? Is it low? Or is there something that's unusually depressing things?

And then lastly, what do you do about your agreement with Linde? That's a \$2 billion outlay that they would make. Do you have to take a charge to settle that? Or -- and if it is, is it large? Is it small? Can you fill us in on some of those issues?

Jim R. Fitterling
Chair & CEO

Jeff, let me take the last question, and then I'll ask Jeff to cover the first two.

On Linde, we have had contact with Linde, and we have a contract that covers that. And so a lot of that is going to depend on the length of the delay. And so we're in active engagement with them. And the answer to your question is I don't expect that we'll have to take a charge right now in order to do that. Jeff, do you want to comment on the first two?

Jeff L. Tate
Chief Financial Officer

Sure. Good morning, Jeff. First, on the corporate segment, you're right, it is seasonably lower in 1Q. We had some credits that we would not expect to occur in the second quarter or beyond, Jeff.

And as a reminder, there are a number of different activities that take place in our corporate segment, whether it be related to [bench] operations, some of our financial asset gain and losses, as well as some of our nonbusiness-aligned litigation and severance costs associated with some of our programs.

So there are a number of different puts and takes that we will have from one period to the next that can create somewhat of a level of volatility. But the guide that we're providing right now, I would say, would be what we would expect for the full year in the corporate segment.

Moving to your second point around cash flow, for the first quarter, we did have our use of cash from a net working capital perspective, which is typically the case in first quarter, we would normally have that, as we look at the seasonal build for higher sales

for the quarter as well as preparing for our planned maintenance activity that we'll have, not only in first quarter, but also we'll expect to have in second quarter. So that creates some level of additional use of cash between those two quarters.

But I also would recognize that our cash conversion cycle continues to be 8 days of improvement versus pre-COVID levels. And from a liquidity standpoint, we're still in a really good position at well over \$11 billion at this time.

Operator

Your next question comes from the line of Matthew Blair with Tudor, Pickering.

Matthew Robert Lovseth Blair

Tudor, Pickering, Holt & Co. Securities, LLC, Research Division

I was hoping you could expand a little bit more on how you're thinking of the security of the dividend in this environment. You have \$4 billion of extra cash coming in this year, you're implementing some cost reductions. You've also reduced your spending for the year. Does that make a dividend secure for this year and probably next and then after that, we'll have to see? Or are you thinking about it differently?

Jim R. Fitterling

Chair & CEO

Yes. Matthew, attractive dividend yield is something that's always been a priority for Dow. We're well aware of the pressures at the current environment places on the capital structure, certainly, the \$6 billion in the near term. And of that \$6 billion, as Jeff mentioned earlier, the vast majority of that will come in, in 2025. That will help support the dividend. But as the macro evolves, we'll have to continue to monitor and act in alignment with our capital allocation framework.

As you know, from the quarter, we're pulling every lever we can to manage cash through a difficult time. And I think we'll have better certainty once we see how tariffs are going to settle out.

We're just in an environment right now where in the marketplace, if you look at downstream demand, it doesn't matter if it's a consumer or one of our customers or somebody in the B2B world; they're all just kind of taking a wait-and-see approach, and that has an impact on what we think the long term is going to look like.

I'm hopeful that we get some better clarity before the end of the quarter when this 90-day pause ends, that will help us a lot to be able to have better visibility.

Operator

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

Hassan Ijaz Ahmed

Alembic Global Advisors

I just wanted to revisit the question about Chinese sort of feedstock imports from the U.S. in particular. I mean, if we could get a little more granular about things, I mean, if I take a look at ethane, it seems over 90% of the ethane that the Chinese import is from the U.S. and call it, almost half of their LPG imports come from the U.S. as well.

So when I sort of drill that down at a cracker level, thinking about the ethylene, polyethylene facilities over there, certainly, the ethane-based facilities in the current tariff regime would need to shut, and then certain LPG facilities would need to shut as well.

So I totally understand that it's a wait-and-see right now in terms of what happens after the 90-day pause. But if there is some semblance of a continuation, maybe a 30%, 40%, 50% of these tariffs, how do you see the Chinese reacting to that sort of a tariff regime? Would they continue those -- running those facilities, with some of them just shutter? I mean -- and I guess part of the broader question is, will we start seeing a more aggressive rationalization globally?

Jim R. Fitterling

Chair & CEO

Yes. I think the line of reasoning, Hassan, that you have is similar to the way that we look at it. I mean you have to look at the landed cost and then the ability to reexport. I think the challenge is with oil coming down and naphtha coming down, obviously, you've got some different dynamics there as well. But there is pressure. And currently, those assets are operating at negative cash margin.

So you would have to see some activity, you would think, in that area. I think it's fundamentally one of the reasons that there's pressure on these tariffs and this tariff discussion right now, is it's not a fair and not a level-playing field. And so that's the way we view it. We're seeing that pressure come into other markets now. And so we have to see that resolved.

I think over time, you're still going to have an advantage in the U.S. Gulf Coast and in Canada and in Argentina, where you have those domestic supplies, and they're continuing to grow. The LNG exports are going to continue to grow the amount of ethane is available here and the amount of propane that's available here. That's an advantage to us. I think the big question mark is, where is the demand? And right now, all this activity on tariffs is just stifling the demand.

Operator

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

Kevin William McCarthy
Vertical Research Partners, LLC

Jim, I was wondering if you could speak to a few related questions on the subject of Europe. First would be, can you elaborate on how you -- how and why, I guess, you've expanded your scope of strategic review there with emphasis on polyurethanes?

And then secondly, on Slide 4, I think you referenced idling or shutdown for a few different assets there. So what will inform those decisions?

And then more broadly and lastly, Dow not is alone, right? We've seen so many other announcements of capacity rationalizations recently from Total in Belgium, but Versalis, SABIC, ExxonMobil. As I add these up, we're now in the teens in terms of percentage destruction of ethylene capacity in the European region. And so I'd welcome your thoughts on that. Are we nearing stability, looking out a year or 2? Or how do you view that?

Jim R. Fitterling
Chair & CEO

Kevin, how and why we expanded the scope, polyurethanes, we looked at the region and felt there was a better owner. And so that's the work that we're going to complete by the end of the quarter. And I think there's an opportunity there.

In terms of ethylene and look at siloxanes and what has happened around the world and then chlor-alkali, chlor-vinyl, these all require energy cost competitiveness, which has gone in Europe. They require downstream demand. Downstream demand in Europe is still 20% below pre-COVID levels. I structurally can't imagine that coming back, we're starting to see continued pressure on downstream customers. You heard it in the automotive sector. That has a knock-on effect to other big industries that we sell to.

The things that are holding up relatively well are packaging and the consumer goods there, little bit as well on some of the durable goods, not durable goods like appliances and a few other things that are under some pressure, but there's still some base business there.

So I think these moves, I agree with you. We're into the teens. We're probably headed towards 20% of that capacity coming out on ethylene. I think that probably gets us much more balanced. Our announcement in siloxanes takes up the 200 kt of siloxanes capacity out. There's a fair amount of length there, but I think that brings it balanced.

It really allows us to focus Berry on specialties, which have been growing and doing well, but that's all been masked by the pressure on siloxanes.

And why idle or shut down? We just have to work through the costs and the trade-offs of the two and make sure we don't make a move that we would regret longer term. I'll share a story that goes back to before the shale gas days. You've been around for a long time, you remember a lot of stuff.

Before shale gas days, we were approaching a big capital expenditure for a lifetime extension down at our St. Charles crackers, and we just couldn't afford to do it. Natural gas, ethane costs were relatively high. And we had the same decision. Do we idle it or do we shut it down? And we decided to idle it and idle it in a way that if the market changed, we'd come back and we could do the enhancements in the lifetime extension at that time.

Shale gas happened a couple of years later, and the market changed dramatically. The first project off the ranks was rehab project on the St. Charles cracker, and it was immediately accretive, and it's run and it's been positive ever since. We know what we know, and there are sometimes things that we don't know. And that's the real crux of making a good strategic decision here on whether it's idle or shutdown.

Operator

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

Frank Joseph Mitsch
Fermium Research, LLC

A couple. One follow-up and then -- one question and a follow-up. Talking about cash flow, since you're guiding to similar EBITDA in 2Q relative to 1Q, I was wondering if you could comment on the free cash flow expectations for 2Q relative to the negative [5 80] for 1Q.

And then among the biggest positives for the second quarter relative to the first quarter pertains to downstream siloxanes. And I was wondering if you could -- and you also mentioned that the Chinese market is still very much in oversupply. So I was wondering if you could provide some insights into the profitability trends that you're seeing in siloxanes in the first quarter and so far here in the second quarter.

Jim R. Fitterling
Chair & CEO

Jeff, why don't you take cash flow? And then Karen, you want to touch siloxanes.

Jeff L. Tate
Chief Financial Officer

Frank. Just a couple of comments I'd make on 2Q cash flow. As we mentioned in the prepared remarks, we do expect the infrastructure asset transaction to close on May 1. So we'll have approximately \$2.4 billion of cash that we would expect to come in during the quarter.

In relation to working capital, we would expect to see similar types of uses of cash in 2Q as we continue to have a heavy turnaround season in the quarter as well, so pretty similar in terms of the cash from operations. But as you start to get deeper into the bridge around getting through the full cash flow performance, expect to get that \$2.4 billion coming in around the Macquarie Asset Management transaction.

Karen S. Carter
Chief Operating Officer

So maybe I'll just quickly comment on siloxanes because that, for sure, has been a bright spot for us even going back to the first quarter.

We continue to see growth downstream and particularly in consumer electronics, applications that, of course, go into data centers, but also AIoT, artificial intelligence-sustained applications. And we continue to see that coming into the second quarter. I mean, if I look ahead, we'll continue to see that downstream growth.

Also some of the seasonal uplift that we normally get may be a bit muted by tariffs. But overall, the trend is still growth. I will also just indicate that the announcement on the upstream block chain going to bring us back into a better balance. And so we really look forward to continuing to leaning into downstream.

Jim R. Fitterling
Chair & CEO

I think on siloxanes, Frank, we've seen obviously some positive pricing moves from first quarter going into second quarter here. And North America and Asia demand for the downstream as well as the siloxanes product is still good.

Europe, the driver for demand there is mostly specialty silicones going into health, personal care, some into automotive sector as well. So they don't have as many upside drivers to demand there. And that kind of gets back to our decision on the Barry site.

Operator

I will now turn the call back over to Andrew Riker for closing remarks. Please go ahead.

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, this concludes today's call. Thank you all for joining, and you may now disconnect.

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