

Dow Inc. NYSE:DOW

FQ2 2025 Earnings Call Transcripts

Thursday, July 24, 2025 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2025-			-FQ3 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.17)	(0.42)	NM	(0.23)	(1.07)	0.87
Revenue (mm)	10226.31	10104.00	▼ (1.20 %)	10232.00	40993.25	42860.45

Currency: USD
Consensus as of Jul-24-2025 12:58 PM GMT

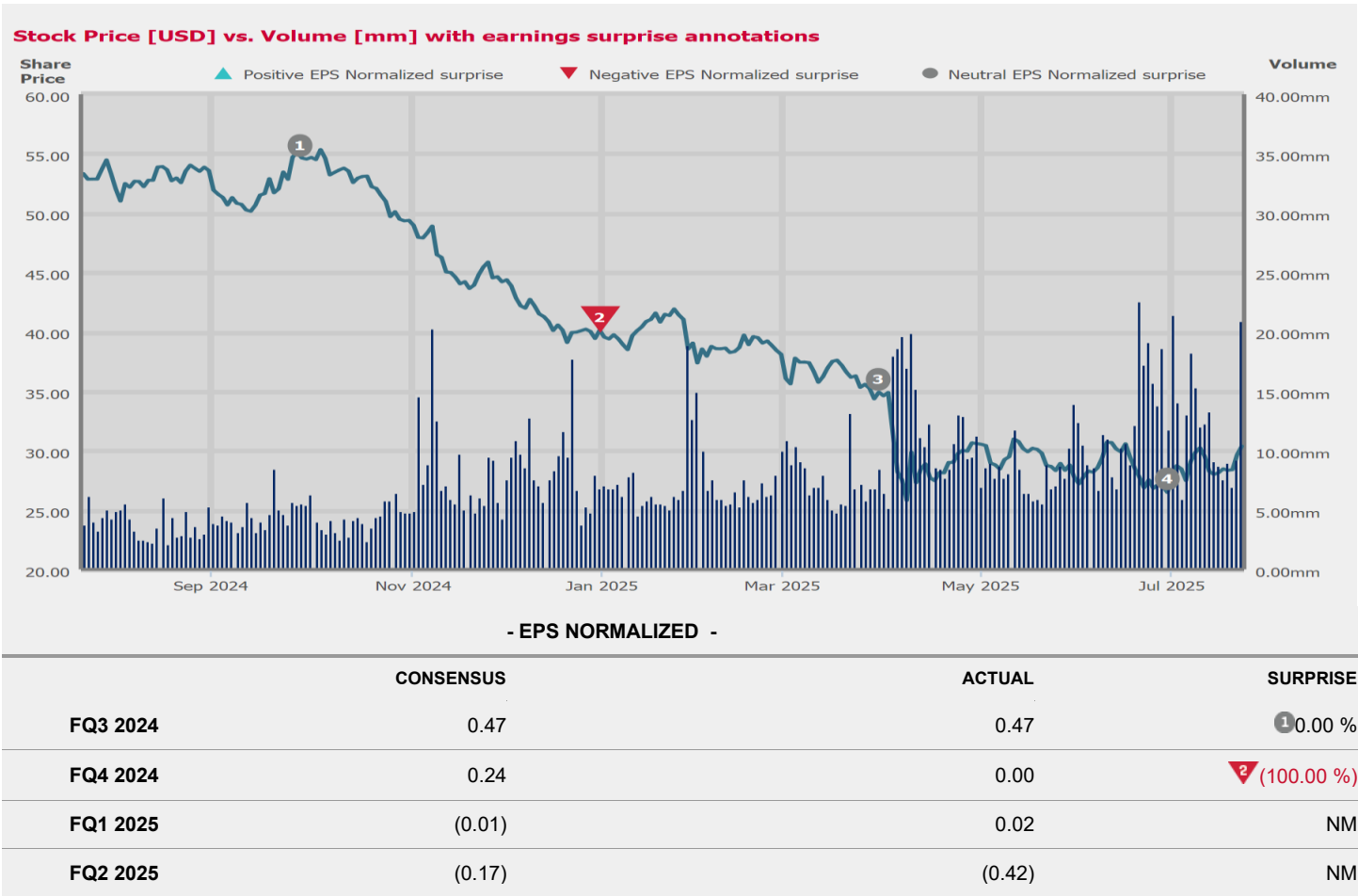


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Call Participants

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Presentation

Operator

Greetings, and welcome to the Dow Second 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 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 second quarter results and provide an update on how we are navigating the challenging market conditions and restoring core earnings. Karen will then provide an overview of our operating segment performance. Jeff will share an update on the macroeconomic environment we are facing and our modeling guidance for third quarter. Following that, we will share more on the strategic inside actions our teams are taking to navigate this prolonged downturn, specifically around cash support, operational execution and structurally improving our global asset footprint in the near term to position Dow well for when our industry recovers. 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. The prolonged down cycle our industry has been experiencing was further amplified this quarter by heightened trade and geopolitical uncertainties, which have strained profitability across our industry. In this environment, it is critical that we successfully navigate the near term, protect Dow's financial flexibility and advance our near-term growth initiatives to support higher earnings as the industry recovers.

Additionally, growing signs of oversupply from newer market entrants being exported to other regions and anticompetitive economics requires an aggressive industry response and regulatory action to restore competitive dynamics. Given these challenges, we remain focused on driving operational discipline in everything we do.

In the second quarter, net sales were \$10.1 billion, down 7% versus the year ago period, reflecting declines in all operating segments. Sequentially, net sales decreased 3% as seasonally higher demand in Performance Materials & Coatings was more than offset by declines in our other operating segments.

EBITDA was \$703 million, which is also lower than the same period last year. Following a significant analysis and consideration, we announced this morning that Dow would implement a 50% dividend reduction effective in the third quarter of this year. This decision was not taken lightly as we understand the importance our shareholders place on the dividend and we carefully considered this on top of the financial impacts that we model. The dividend is a key element of our investment thesis, and that is not changing. We remain committed to targeting a competitive dividend across the economic cycle. However, given the current lower-for-longer earnings environment and the lack of a clear line of sight to a recovery for our industry, this is the most prudent way to maintain financial flexibility and maximize long-term value for our shareholders.

Also in the second quarter, we progressed several near-term cash support levers. The close of our strategic infrastructure asset partnership named Diamond Infrastructure Solutions delivered \$2.4 billion of cash for Dow in the second quarter and has already captured growth opportunities with new customers. We also expect to receive cash proceeds from the NOVA judgment this year, and consistent with our best owner mindset, we recently announced 2 noncore product line divestitures totaling approximately \$250 million at attractive EBITDA multiples of around 10x. These divestitures are additive to our announcement that we will shut down 3 upstream assets in Europe to address structural challenges in that region.

We are confident that these actions paired with the completion of our near-term incremental growth projects will support long-term value creation. Additionally, we are accelerating progress on our \$1 billion in cost savings actions, where we now expect to deliver approximately \$400 million this year. We are committed to continuing Dow's track record of operational and financial discipline, executing near-term actions to maximize shareholder value and navigating the current environment all to better position the company for profitable growth and higher shareholder returns as the industry recovers.

Next, I'll turn the call over to Karen who will provide an overview of our second quarter performance across Dow's operating segments.

Karen S. Carter
Chief Operating Officer

Thank you, Jim. In the second quarter, our teams continued to focus on price management, to restore margins as we prioritize volume in attractive end markets. As we have done for the past several quarters, we are closely monitoring the macros across the markets we serve, pulling all levers to help mitigate the current lower-for-longer earnings environment as well as the impact brought on by recent trade and tariff uncertainties.

Starting with the results for our Packaging & Specialty Plastics segment on Slide 4. During our first quarter earnings call, we shared our expectations for flat polyethylene prices in second quarter. In April, however, prices in North America settled down \$0.03 per pound weighed down by the tariff uncertainty that halted several export channels. We believe that absent these uncertainties, prices would have remained at least flat and may have increased given healthy demand and higher feedstock costs.

In June, with export markets normalizing, the industry recovered the \$0.03 per pound that was lost in April. Although industry margins remain below historical averages, demand remained steady. And following 3 consecutive months of industry inventory decreases, we see a favorable backdrop supporting further price increases. Net sales were down compared to the year ago period. Higher volumes in polyethylene and increased energy sales were more than offset by lower downstream polymer pricing and lower volumes for infrastructure applications. Since projects in that industry are long dated, they are impacted more by tariff uncertainty.

Sequentially, net sales declined, driven by lower merchant ethylene sales. This is due to the start-up of Poly-7, our new

polyethylene train in the U.S. Gulf Coast. The asset will help Dow realize the full benefit of integration by absorbing our remaining ethylene length in the region. Polyethylene volumes were up, led by the U.S. and Canada, confirming resilient demand in the region, but down in Asia Pacific as tariff uncertainty limited exports early in the quarter.

Operating EBIT was \$71 million, reflecting a decrease compared to the year ago period. This was primarily driven by lower integrated margins. Sequentially, operating EBIT decreased mainly due again to lower integrated margins primarily reflecting pressure from the unfavorable industry price settlement in April as well as lower operating rates.

Next, turning to our Industrial Intermediates & Infrastructure segment on Slide 5. Net sales declined both year-over-year and sequentially, as market conditions across the segment remained challenging, particularly in our polyurethanes and construction chemicals business, which has high exposure to durables and building and construction end markets. Volume declined 2% compared to the year ago period. Lower polyurethanes and construction chemicals volumes and EMEA where we continue to see increasing import activity from competitors in China, were partially offset by higher industrial solutions volumes across data center cooling and gas treating applications.

Sequentially, a decline in demand for deicing fluid following the winter month was only partially offset by a modest seasonal uplift in building and construction applications, which was lower than expected in a typical year. Operating EBIT for the segment decreased versus the year ago period as well as sequentially, primarily driven by lower prices and higher planned maintenance activity. This included activities related to the start-up of our new alkoxylation unit in Seadrift, Texas.

The new capacity representing the completion of one of our near-term growth investments will support earnings growth beginning in the third quarter and beyond. We also recently finalized a long-term agreement with a major consumer brand owner to supply millions of pounds of low-carbon solutions, demonstrating our ability to capitalize on innovations, that are meeting the needs of our customers and their sustainability commitments to consumers.

Moving to the Performance Materials & Coatings segment on Slide 6. The team delivered a seventh consecutive quarter of downstream silicones growth, supported by strong demand for consumer and electronics applications. However, lower volumes for coatings applications and upstream siloxanes more than offset these gains.

Net sales in the quarter decreased versus last year and local price decreased year-over-year driven by declines in both businesses. Sequentially, net sales for this segment increased 3% driven by higher demand for downstream silicones in mobility and personal care applications as well as seasonally higher demand for architectural coatings. Operating EBIT was up compared to the year ago period, primarily driven by margin expansion from lower input costs as well as better mix and consumer solutions, including more downstream silicones volumes and less upstream siloxane.

Sequentially, operating EBIT increased driven by volume gains in both businesses as a result of seasonal improvement and continued downstream silicones growth as well as lower fixed costs.

In summary, team Dow is focused on taking action to help navigate the challenging industry conditions. We are protecting and advancing our position in high-growth markets, optimizing our global asset footprint and staying close with our customers.

I will now turn the call over to Jeff, who will share more on the macroeconomic landscape, our outlook and the related actions we are taking to ensure Dow's financial flexibility.

Jeff L. Tate
Chief Financial Officer

Thank you, Karen, and good morning to everyone on the call today. Moving to Slide 7. As we head into the back half of the year, Dow and some of our industry peers are noting expectations that the global macroeconomic backdrop will remain challenged. Ongoing tariff and geopolitical uncertainty have impacted demand patterns especially in the industrial, infrastructure and durable goods sectors. This has contributed to downward revision in global GDP forecast leading to expectations of a protracted down cycle across many of the end markets Dow serves.

Looking across our 4 market verticals. In packaging, domestic demand in North America is stable. However, export markets saw slower growth as volatile tariff policies weighed on trade flows, resulting in lower operating rates and additional margin pressure across the industry. Manufacturing activity in China remains relatively flat and continues to contract in Europe. In the infrastructure sector, U.S. building permits remained near 5-year lows in June and market conditions in Europe and China have shown no signs of improvement.

Consumer spending remains steady even as U.S. and European confidence stayed below historical norms. June retail sales were up in China largely attributed to government stimulus. However, consumer prices in China have deflated in 4 out of the last 5 months through June. And in mobility, we continue to closely watch the impact on demand from both global tariffs and government incentives. We have seen signs of softening in the U.S. as auto sales declined for a third consecutive month in June.

In the EU and China, while internal combustion vehicle demand continues to soften, electrical vehicles remain a bright spot. And China, specifically, vehicle production is forecasted to grow 3% this year. Chinese auto sales and production are highly dependent on government incentives and could be affected by tariffs and trade uncertainties. If the current momentum continues, it should be beneficial for our elastomers and our silicones businesses that have exposure to this market.

Now turning to our outlook on Slide 8. With the considerable uncertainty that so many markets are facing, making any projections right now is especially challenging. Should we become aware of significant changes during the quarter, we will share timely updates as appropriate. Although the macros remain largely unchanged based on current indicators, we anticipate our third quarter EBITDA to be approximately \$800 million, a \$100 million improvement from the second quarter. This reflects our expectations for a sequential improvement in polyethylene integrated margins as well as higher volumes from our growth investments that were commissioned in the second quarter.

It also takes into consideration our cost reduction program, where we have increased our expectations for in-year savings to approximately \$400 million versus our original target of \$300 million. Part of our sequential tailwinds are expected to be offset by higher planned maintenance spending. In addition, we expect lower seasonal demand, lower spreads in certain end markets and lower equity earnings.

In Packaging & Specialty Plastics, we expect sequential EBITDA to be approximately \$95 million higher. This is largely driven by higher integrated margins following the June price settlement and an expectation that we will secure a price increase in July. Doing so will help us recoup some of the margin loss by elevated feedstock costs this year. In addition to margin expansion, we have the initial ramp of our new polyethylene train in the U.S. Gulf Coast.

Higher planned maintenance activities will provide a headwind in the quarter, and we expect lower equity earnings primarily from Sadara as a result of an unplanned event.

In the Industrial Intermediates & Infrastructure segment, we expect third quarter EBITDA to be approximately \$85 million higher than the second quarter. This expected earnings uplift reflects our expectations for higher volumes from the start-up of our new alkoxylation facility.

In Polyurethanes, we anticipate higher volumes in both MDI and polyols although margins remained under pressure sequentially, driven by fierce price competition with Chinese exports into both Europe and Latin America. Following the heavy turnaround schedule in second quarter, II&I would have a sizable tailwind in the third quarter, in addition to the ramp and cost reductions. This segment will also experience headwinds from lower equity earnings at Sadara.

And in the Performance Materials & Coatings segment, we expect lower sequential EBITDA of approximately \$65 million. Reduced turnaround spending will provide some tailwind in the third quarter. We also anticipate normal seasonally driven decreases in demand in the building and construction end market as well as margin compression in upstream siloxanes.

The trade and tariff uncertainty from the prior quarter led to demand disruption in China, which drove local siloxane prices to new record lows with prices declining throughout the second quarter. In summary, with expanded margins in polyethylene, earnings tailwinds from our recent organic investments and our accelerated cost reduction ramp, we expect to deliver sequential earnings improvement despite the slow growth environment we are navigating.

Now turning to Slide 9. We remain committed to financial discipline and flexibility. As evidenced by the near-term cash and operational improvements, we already have underway to provide significant support. For example, we announced last quarter that we expect our total enterprise 2025 CapEx to be approximately \$2.5 billion, reflecting a \$1 billion reduction compared to our original plan of \$3.5 billion. This is largely attributed to our decision to delay our Path2Zero project in Canada until market conditions improve.

And consistent with our best owner mindset, we also announced 2 non-core product line divestitures totaling approximately \$250 million at attractive EBITDA multiples of approximately 10x. This includes completing the sale of our Telone soil fumigation product line to a strategic buyer. And we announced that Dow will sell our 50% ownership in the DowAksa joint venture, which is expected to close in the third quarter of this year following customary regulatory approvals.

Turning to our cost reduction efforts. We are on track to deliver at least \$1 billion in targeted cost savings on an annual run rate basis by 2026. We delivered an approximately \$50 million sequential tailwind in the second quarter and are on a faster pace than we initially anticipated. In fact, we now expect to deliver approximately \$400 million of the reduction this year.

We also executed a debt-neutral \$1 billion bond this year to take advantage of tight spreads and extend our material debt maturities at 2027. In addition, we continue to make solid progress on our unique to Dow items that support our near-term cash generation.

In May, we finalized our strategic partnership with Macquarie Asset Management for the sale of a minority equity stake and select U.S. Gulf Coast infrastructure assets, receiving approximately \$2.4 billion in initial cash proceeds from the transaction. The new entity, Diamond Infrastructure Solutions, recently announced a deal with the climate-tech company - named Again - to build a first-of-its-kind plant to recycle waste CO2 emissions from an on-site tenant in our Texas City Industrial Park. This agreement is one of many growth opportunities, the Diamond Infrastructure Solutions business model is set up to enable with both new and existing customers.

And as a reminder, Macquarie has the option to increase their stake to 49% within 6 months of closing, which would occur no later than November. This would increase total cash proceeds from this new partnership to approximately \$3 billion for Dow this year.

Looking into the second half of the year, we also expect to receive cash proceeds of approximately \$1.2 billion from the resolution for damages related to the jointly owned ethylene assets with NOVA Chemicals. So in total, we expect these

actions to provide more than \$6 billion in near-term cash support. And building on this, Karen will now cover the work we're doing to drive execution, ensure strong operational performance and enable higher near-term returns.

Karen S. Carter
Chief Operating Officer

Turning to Slide 10. We are executing several strategic moves that will uniquely position Dow to win as the industry recovers. This includes moving aggressively on all fronts to protect and expand our industry-leading position. For example, in Packaging & Specialty Plastics, we completed the start-up of our Poly-7 world-scale polyethylene train in Freeport, Texas. Using Dow's proprietary solution technology Poly-7 is designed for lower cost and increased production capacity as well as improved efficiency and flexibility. Poly-7 will support customer-driven demand in specialty packaging, health and hygiene and industrial and consumer packaging applications. This new asset will also absorb Dow's ethylene length in the U.S. Gulf Coast, maximizing integrated margins and enabling production of higher-value functional polymers at other assets.

Additionally, the completion of our new alkoxylation capacity in Seadrift, Texas, will support growth in Industrial Solutions, which serves attractive end markets such as home care, pharma and energy. After completing this project, Dow will have no wholly owned capacity producing MEG. We're also transforming our Performance Materials and Coatings segment through downstream silicones capacity expansion, which supports high-value applications in attractive end markets growing above GDP, such as infrastructure, electronics, mobility and consumer.

In addition, our industry continues to face difficult market dynamics in Europe including an ongoing challenging cost and demand landscape. That's why earlier this month, we announced the shutdown of 3 upstream assets in Europe across each of our operating segments, in response to the structural challenges the region continues to face. Each of these assets represent a meaningful portion of our regional capacity, which is either not fully integrated, resulting in excess merchant sales exposure or as high on our cost curve, where we have better options to supply derivative demand and optimize margins. These shutdowns are cash accretive and expected to result in an annual EBITDA uplift of \$200 million by 2029 with benefits beginning in 2026 and half of that achieved by 2027.

In summary, our teams are driving execution, helping Dow to navigate the realities of the current macroeconomic environment while also enabling higher returns in the near term. We are closely monitoring industry dynamics and remain committed to taking all necessary actions to drive shareholder value creation.

Now let me turn the call back to Jim to share more on our consistent, disciplined and balanced capital allocation approach.

Jim R. Fitterling
Chair & CEO

Thank you, Karen. Now turning to Slide 11. In response to one of the longest downturns our industry has experienced, it is critical that we maintain financial flexibility and a balanced approach to capital allocation. With the earnings pressure the industry downturn has created, the fixed dollar amount of our dividend was outsized. This limited our flexibility to navigate this cycle and optimize total shareholder returns. Therefore, after significant and detailed analysis, Dow's Board of Directors determined that a 50% reduction in the dividend is the right move for our company and shareholders at this time.

Importantly, our approach to capital allocation over the cycle remains unchanged. Our #1 priority remains safely and reliably running our assets while we prepare for the market rebound. In addition, we will continue to target a strong investment-grade credit profile with a 2 to 2.5x net debt-to-EBITDA ratio across the cycle. And we will continue to invest in organic growth while targeting shareholder returns of at least 65% of operating net income over the cycle via a combination of dividends and share repurchases. The actions we are taking today helped to ensure that we're well

positioned for the industry recovery.

Closing on Slide 12. Our near-term strategic priorities are clear, and we are working hard to mitigate the current environment and improve our competitive position. This includes a strict focus on operational and financial discipline and driving execution not only to restore our core earnings but grow them. This is evidenced by the multiple near-term cash support items we're already delivering and the reduction in our dividend. In addition, the completion and startup of our near-term growth projects will further unlock both the value of integration and capitalize on our low-cost asset footprint in the Americas.

We're also taking necessary steps to right-size our footprint where we see structural challenges. Increasingly, we are seeing anti-competitive oversupply activities particularly when it comes to imports into Europe and Latin America. Our teams are actively engaged in these regions to aggressively defend our local asset footprint and to ensure that a fair trade environment remains.

We are engaging in positive and productive conversations with the governments around the world as it relates to trade and tariff uncertainties, and we're confident that we're in a strong position to mitigate the impact. Our diverse product portfolio, strategically advantaged asset footprint and global scale position Dow to capture demand in attractive end markets growing above GDP. This is also evidenced in our annual benchmarking results where we're generating higher polyolefin margins than our peers over the cycle.

We are taking the right actions and delivering several near-term improvements while staying focused on our long-term strategic priorities. We're well positioned to deliver profitable growth as we unlock the full benefit of our growth investments, improved margins, implement cost reductions and further strengthen our competitive advantages.

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

Vincent Stephen Andrews

Morgan Stanley, Research Division

Jim, I'm wondering if you can contextualize the dividend and your operating net income on a go-forward basis. Just thinking back in 2019, when you spun you obviously have the same percentage target for the dividend of 45% of operating net income, but of course, operating net income was a lot higher back then than it is today. So I'm just wondering how you're thinking about that, particularly over the next 3 to 5 years in terms of what you think mid-cycle operating net income could get back to and just sort of why the 45% ratio remained the correct ratio today versus 2019.

Jim R. Fitterling

Chair and CEO

Good morning, Vincent. Yes, a lot of analysis and forward-looking modeling of what we thought the economic recovery was going to look like, went into that dividend reduction. And I would also say, also a clear mindset that we weren't trying to solve this equation solely with the dividend. We also have a lot in flight in terms of cost reduction actions and restoring earnings growth.

That said, I don't think the mid-cycle earnings of the company has changed. I think the timeline is what's changed. We're in the third year of this downturn. And with the trade negotiations and kind of a new world order and the trade rebalancing that's happening, it's hard to predict how long it's going to take us to recover. But it feels like we are reaching a conclusion of these negotiations, which I think is the first step.

And we're also seeing dynamics, as Karen mentioned on the call, where we think we're going to start to see some pricing power in plastics as well as our near-term incremental growth investments. So I think the mid-cycle number itself is still the same. The question is how long will it take us to get back to that level?

Operator

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

Hassan Ijaz Ahmed

Alembic Global Advisors

Two-part question. One on the dividend. Just trying to sort of philosophically understand why even keep a fixed dividend. Industry, as we all know and have seen over the decades, continues to be cyclical why not just make it a variable dividend. So that's part one. And part two is just on the polyethylene side, obviously, we continue to hear about capacity closures and shutdowns and the like. But alongside new sort of project announcements keep happening as well. So if you could also comment on how you're thinking about supply-demand fundamentals there?

Jim R. Fitterling
Chair & CEO

Good morning, Hassan. Thanks for the question. I'm just writing it down, so I get both parts up here. On dividend, the dividend yield has been an important part of our stock ownership. When you think about our institutional investors and our retail investors, the dividend is very significant for them. And so having a leading dividend and a competitive dividend through the cycle has always been for 128 years of Dow, part and parcel of the investment thesis. And we do generate good cash. Obviously, this is a prolonged down cycle. So I don't think it's fair to extrapolate where we are at this point in time.

So I think the balance is what we're trying to strike here with \$2 billion moving out every year in a fixed dividend that really and put some handcuffs on us from a capital flexibility standpoint at this part of the cycle and reducing that dividend gives us more flexibility to do other things as we navigate through. And as I said, we're not trying to solve the problem with just reducing the dividend. We're trying to keep good competitive dividend, a leading dividend, which I think is what our investors are looking for, but also earnings growth.

And our focus internally right now is on our cost positions. We have to establish low cost at the bottom of the cycle and on restoring earnings growth in the near term. On polyethylene, capacity closures primarily have been announced in Europe. I think so far, about 15% of the European capacity has been announced. There are announcements and new capacity coming on, and we still need to remember that polyethylene continues to grow above GDP rates.

And so you are going to need new capacity coming into the market around the world to support the growth of all the products that the plastics go into. Questions, timing and supply-demand balances and how we manage all that. So I don't think you're looking at an environment where it's the end of investing in plastics. I think you're looking at an adjustment to all the tariffs and trade situations that are going on. And then where do we go from there? And what's the timing of the new capacity coming on?

Operator

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

Michael Joseph Sison
Wells Fargo Securities, LLC, Research Division

I guess the first question is, I think consultants have noted that industry operating rates should get back to 90% for polyethylene in the third quarter. Pricing is up integrated margins, how do you get adjusted EBIT better? It just seems like it could be a little bit better. I guess I want a little bit of color on that.

And then -- as a quick follow-up, Jim, I think you've noted that Dow sees an opportunity to leverage its 10 gigawatt power portfolio for AI data centers, maybe through the new partnership you have. Can you maybe expand on that a little bit and what the opportunity is?

Jim R. Fitterling
Chair & CEO

Yes. Let me ask Karen to comment on operating rates. I'll just make one comment on operating rates. There's a big difference between operating rates in the Americas and the Middle East, where you have very low-cost positions in Europe and Asia Pacific. So we need to keep that in mind. And sometimes the consultants, when they refer to 90% operating rates, maybe referring to the low-cost assets. But longer term, we do see them getting back to that stage. Karen, do you want to comment on what we see coming in the third quarter and beyond?

Karen S. Carter
Chief Operating Officer

Yes, absolutely. And thank you for the question. We do see integrated margins and polyethylene getting better in the third quarter, and that's primarily because of where we ended the second quarter. And so if you think about second quarter, April started off really rough where you saw the export frankly, evaporate because of the uncertainty around tariffs when the China and U.S. trade started to escalate. And before liberation Day, we actually thought that prices were going to go up because you saw industry inventories come down in April. But of course, we saw polyethylene prices declined by \$0.03 per pound, again, primarily because exports evaporated out of the U.S. Gulf Coast.

And then going into May, the market started to stabilize. You saw industry inventory come down again and exports started to resume. So June is really when we start to see the recovery. You saw industry inventories go down for a third consecutive month, June from an industry demand perspective, was the best month of the year, and that created a favorable backdrop for prices to go up. But because of the April down \$0.03 per pound for the quarter, EBITDA was not great and integrated polyethylene margins were extremely low. So we are capitalizing on that momentum coming into the third quarter, and there's a few reasons why we see integrated margins and therefore, EBITDA getting better in the third quarter for polyethylene.

The first thing is that the industry has \$0.05 to \$0.07 per pound of price increases on the table for July. We expect to get those because, again, the current integrated margins are low and unsustainable. The second thing for Dow is that, of course, you know that we commissioned our Poly-7 polyethylene train down in Freeport, Texas at the end of second quarter. That train is fully sold out. We are targeting that volume to higher-value market segments like food and specialty packaging and health and hygiene, that train also absorbs the last lens of merchant ethylene that we have on the market.

And since we started up that train, we've seen spot ethylene improve, the prices improve there. And then the last piece is that because we started up that capacity, we have more flexibility to produce higher-value functional polymer. So we fully expect EBITDA -- integrated EBITDA margins to improve in the third quarter, and therefore, we will have uplift both on margins, but also on volumes in the Poly-7.

Jim R. Fitterling
Chair & CEO

And on Diamond Infrastructure Solutions, we're early days, but I'd say the range of opportunities there are all infrastructure related. We have an extensive pipeline network that connects the U.S. Gulf Coast from Brownsville, Texas to New Orleans, and several of our sites along the way, we have 4,000, 5,000 acres of land, which would be available for colocation. We've had outreach from people who are interested in everything from battery storage systems for grid stability and reliability. Jeff mentioned a new investment project on one of the sites.

A lot of the growth that's coming in data centers and the tech and AI is companies that don't have a lot of infrastructure and utilities capability and sometimes an interest to build behind the meter power, which is the way that we operate. Having said that, there's no big project that I could put out in front of you right now on data centers, but I think positioning ourselves to have the capability to capture some growth there is important, keeps our costs down as well and leverages our scale.

Additionally, I think there's some opportunities with environmental operations you think about wastewater treatment and the management of that. That's a unique capability the chemical industry has and we have, in particular, and I think that's one that can be very challenging for a new entrant and can also take an awful long time to permit.

Operator

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

Jeffrey John Zekauskas

JPMorgan Chase & Co, Research Division

If you went forward with the Alberta project, maybe your CapEx annually would be \$3.5 billion and you still have \$1 billion in dividend payments. So if there's no improvement in the operating environment through the first half of 2026, is that project off the table? Or would you reduce your dividend further? How do you feel about that in a world where the operating environment doesn't improve? And for Jeff, the working capital use was \$1.5 billion for the first half. Where do you think working capital use or benefit will stand by the end of the year?

Jim R. Fitterling

Chair & CEO

Jeff, thank you. On Path2Zero, we will come back to that project, as we indicated earlier, toward the end of the year as we look forward at '26 and beyond CapEx plans are. But your point is noted, and that was obviously the reason that we delayed was the environment that we're in, and we want to see a return to core earnings growth before we make a decision and make the move on that. I do think, as we mentioned in the previous question, long term, you do need growth in polyethylene. And given the capacity that we've got up there being very low cost, it's important for us to continue to move our footprint lower down the cost curve, but affordability is front, first and foremost, that we got to take a look at.

Jeff, do you want to take working capital?

Jeff L. Tate

Chief Financial Officer

Absolutely. In terms of working capital, the team continues to do a really solid job of managing inventories in all 3 aspects of working capital in the first half. What we have been managing through is obviously a heavy planned maintenance schedule throughout the first half of the year, which will continue into third quarter and then start to tail off in fourth quarter as well. We've also been managing the 2 new growth investments as they come online, as Karen mentioned in her prepared remarks earlier. So first half versus second half, Jeff, we would expect to see working capital improve in the second half versus what we've seen in the first half.

Operator

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

David L. Begleiter

Deutsche Bank AG, Research Division

Jim, just on mid-cycle EBITDA. Can you remind us where you think that number is? And how do you get there from this year's levels, just your comments on anti-competitive behavior in LatAm and Europe. How do you go about mitigating those impacts?

Jim R. Fitterling

Chair & CEO

David, our average EBITDA from the period of '18 to '21 was about \$8.6 billion. Our near-term growth investments are

about \$1.5 billion from growth in the 3 segments. You had another \$1 billion from -- sorry, another \$0.5 billion from transform the waste targets that were in there. Alberta was \$1 billion. Of course, Alberta, as we just talked about, will depend on timing.

And so I think the quantum of those numbers is still intact. It's the timing that's in question. As far as anticompetitive behavior, I think it's important that people understand that one of the things that's making this a little bit lower-for-longer is the fact that you've got product moving around the world differently than you did before product that might have invested for the U.S. And I may not be talking particularly here chemicals, but derivative demand that's not going to the U.S., that's going to other markets, and it's flooding other ports in other markets.

And obviously, it's pressing pricing and depressing demand around the world. So we have to work through that. We have 2 things going on. We have a very active trade -- international trade operations team that's well connected with the government at all levels here and abroad. And they're managing the tariff trade negotiations that are going on. And then we've got to work through the normal course of business, WTO rules around how product has moved and defending fair trade and that's a separate action that we've got going on. Sometimes industry associations lead those activities. Sometimes it's individual companies that lead them. You've seen some here. You've seen it in Europe and then Latin America, but there's an increasing amount of those because of the knock-on effect of tariffs being implemented, markets being closed to some imports and then the redirection of those exports to other markets.

Operator

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

Matthew Robert Lovseth Blair

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

Could you talk a little bit more about what you're planning to do with the cash saved from the dividend. So I think in today's market, it's pretty safe to assume that, that cash would simply support the balance sheet. But when you get back to a mid-cycle environment, is that cash saved, would that be more earmarked for organic growth investments? Or do you think that will be earmarked for share buybacks?

Jim R. Fitterling

Chair & CEO

I'll take a shot at this, and then I'll ask Jeff to comment as well. But the reduction in the dividend was to keep our cash flexibility through the bottom of the cycle. And we're trying to keep CapEx low and bring CapEx down until we see improvement in the cycle. So it wasn't our intent to be able to take that cash and redeploy it in CapEx, it was to have some flexibility. We're not doing share buybacks right now, for example. But our stocks at a price where you would want to be doing that, looking at the intrinsic values.

And so we have no flexibility to do it if we're paying everything out as a fixed dividend. So that's the way we went into it, we went into it with obviously maintaining our credit rating is another important part of that. Jeff?

Jeff L. Tate

Chief Financial Officer

So Matthew, the only thing that I would add, if you look at this more in the near term is absolutely about navigating this lower-for-longer, maintaining that flexibility, continue to focus on balance sheet strength as we think more medium and longer term, what we want to do is ensure that we can continue to look at the most value-creating opportunities that we'll have across our balanced capital allocation framework.

One thing I would note in regards to that because of a lot of the work that's been done over the past few years around the balance sheet, we don't have any substantive debt maturities that come due before 2027. So we're in a really good position from that perspective to maintain that flexibility in the near and medium term.

Operator

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

Kevin William McCarthy

Vertical Research Partners, LLC

Jim, in listening to your comments, it sounds as though you believe that normalized earnings power has not changed very much, but the timing or the cycle shape has changed. So I was wondering if you could elaborate on that over the near term and the medium term. For example, you're guiding up sequentially in 3Q. So do you think \$700 million could be a durable trough for quarterly earnings. And then over the medium term, my recollection is dating back to the Capital Markets Day in May of '24, you were looking at a peak period sometime between 2027 and '30, so is it the case that we're flexing more toward 2030 at this point? Any updated thoughts there would be appreciated.

Jim R. Fitterling

Chair & CEO

Kevin, both good questions. I do think it's flexing towards the end of that time period, as you had mentioned. I will resist any temptations to call the trough given the environment that we're in, but we're taking actions to improve the core earnings and some of them are things that we wanted to do intentionally, which is invest for growth during the bottom of the cycle because those are the things that get us in a position to maximize the up cycle when we come out and you know this business, it takes a while to get in position to be able to capture that. You just can't think that the cycle is coming next year and always time to start working on a project, you have to have that already underway in flight or finishing construction.

So that's the way we're looking at it. The market has to -- is absorbing and has to continue to absorb some of the capacity that's come on, and then you started to see at least an understanding and awareness and some rhetoric in China about the amount of capacity that they've built and the amount of overcapacity that's there and the impact that's having even on the domestic market, especially amplified when they're limited on the export of that material. And so that is -- I think that's a good thing that brings some discipline into things that we haven't seen, and we need more discipline.

Operator

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

Joshua David Spector

UBS Investment Bank, Research Division

I was wondering if you could talk about just operating rates for Dow within polyethylene. I mean our understanding is some of the lower EBITDA in 2Q was that you guys took down operating rates and the industry did as well. So if you could help size what that penalty was in 2Q. And it doesn't look to me that you're assuming much improvement in 3Q. I guess, is that the right framing? Or would you characterize that differently?

Jim R. Fitterling

Chair & CEO

Yes. Let me ask Karen to take a shot at that.

Karen S. Carter
Chief Operating Officer

Yes. Thanks for the question. So operating rates in the second quarter, again, it was the April challenge that we had. Keep in mind that the industry -- the overall industry in North America exports about 40% of its capacity on a monthly basis.

And so as I mentioned before, before liberation Day, there was a fertile ground for prices to go up because inventories have come down in April. I do want to make a comment, though, on third quarter because we actually are going to see EBITDA improvement in the third quarter because of how we exited the second quarter. And so operating rates from an industry perspective are above 90%. It is the low-cost region. And so from a Dow perspective, we fully expect to get the price increases that we have on the table for third quarter, starting in July.

And the second part, the reason we're going to have uplift is because of our Poly-7 train that just came on, as I mentioned before, it's fully sold out. And we are going to move that volume in the third quarter, and you'll see an earnings uplift from that. So our operating rates are up. There's a very small percentage of the industry capacity that is offline in the third quarter, and we expect to deliver earnings improvement from those perspectives.

Operator

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

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

Two questions. One, Jim, can you just talk about on the anti-competitive stuff which product chains are being most impacted there? And then where has legal actions been taken already? And where should we expect it going forward? And then could you just clarify how much of the July price increase is actually baked into your Q3 guide?

Jim R. Fitterling
Chair & CEO

Yes. I'll take the first part, and I'll ask Karen to take the second part. Polyurethanes, you've seen a lot of that activity Duffy. And of course, there's a lot of overcapacity that's been built there. And so there's been a lot of move there. And it's a low demand environment. So that's created that kind of pressure. Although it's not a particular area for us, you see it in chlorine, aromatics. If you spots like that, you see that same kind of an impact.

We're starting to see a bit of it in polyethylene. So we've seen Brazil take action, so Latin America. We're starting to see a little bit of that potentially in Europe, although I don't think it's been as prevalent in Europe on the plastic side. We're eyes wide open in all areas for that. And then I think you -- obviously, you've seen it in electric vehicles in Europe. That was one of the early cases where there was a lot of pressure in Europe on EVs. So it's not just a chemical industry, but in the chemical industry, there's a significant activity.

Karen, do you want to talk about pricing and how much is in that testament?

Karen S. Carter
Chief Operating Officer

So all of our July price increase that we have on the table is incorporated into our results. And again, we fully expect to achieve that. We are pushing to achieve that because, again, the current integrated margins are not only low, but they're

unsustainable. So we are fully baking in integrated margin expansion as we get into third quarter.

Operator

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

Patrick David Cunningham

Citigroup Inc., Research Division

With equity earnings continuing to trend lower, do you see any need for further portfolio restructuring actions on your JVs? And then specifically on Sadara, I believe the principal grace period is through 2026, that current earnings levels, would there need to be a reprofiling of that debt or any additional cash burden from Dow?

Jim R. Fitterling

Chair & CEO

Patrick, there are obviously equity earnings are depressed in the JVs because they're in the same markets that we're in. So I think we're dealing with that. Kuwait, Thailand, I feel like a relatively good position balance sheet-wise. We have an active team working together with Aramco on refinancing before we reach that time period where those grace period ends.

And so we're looking to mitigate that way. So I think so far, we're in good shape there, but it's always something that's front and center. And Jeff and I are keeping a very, very close watch on.

Operator

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

Frank Joseph Mitsch

Fermium Research, LLC

I wanted to come back to P&SP sequential decline in 2Q versus 1Q. The guide that you gave out 3 months ago suggested that you'd see a \$50 million headwind tied to turnaround, but cost reductions would mitigate that by \$25 million, so the net of those 2 would be a \$25 million decline. Obviously, we're down \$270 million. Can you kind of size the buckets for us in terms of how much that was the \$0.03 decline from April? How much of that is operating rates, how much of that might be something else that we haven't discussed right now. But I'm trying to get a better handle as to that large sequential decline?

Jim R. Fitterling

Chair & CEO

Yes. Let me ask Karen to comment on that.

Karen S. Carter

Chief Operating Officer

Yes. So the 2 anomalies that we didn't talk about on our first quarter earnings call, and we're anticipating was the \$0.03 per pound price decline that we saw in April and then subsequently, the operating drop because of that. So I would say it's about 50-50 between 50%, the price decline \$0.03 and then 50% the operating rate decline.

Operator

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

John Ezekiel E. Roberts
Mizuho Financial Group, Inc.

Do you think the duration of the overcapacity in polyethylene, siloxanes and polyurethanes are all in sync? Or do you see one or another of these chains actually improving before the others?

Jim R. Fitterling
Chair & CEO

That's a good question, John. I think isocyanates is a relatively decent shape within the polyurethane portfolio PO will take longer. We've got probably the biggest adjustment in PO coming end of the year with a reduction of a train here in the U.S. Gulf Coast.

Siloxanes, the reason for our move with Barry was because our view is that, that's a little bit longer on siloxane silicones, downstream silicones continues to grow well. And so I think that that looks good, but the drag is on siloxanes. I think polyethylene, ethylene because of the demand that's out there and the size of the market will recover quicker.

Operator

This concludes our Q&A session. I will now turn the conference back 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

This concludes today's conference call. You may now disconnect.

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