Dow Inc. NYSE:DOW

FQ4 2025 Earnings Call Transcripts

Thursday, January 29, 2026 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2025-			-FQ1 2026-	-FY 2025-			-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(0.51)	(0.34)	NM	(0.19)	(1.03)	(0.94)	NM	(0.28)
Revenue (mm)	9470.79	9460.00	(0.11 %)	10271.21	39975.32	39968.00	(0.02 %)	40618.71

Currency: USD
Consensus as of Jan-23-2026 6:24 PM GMT

	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2025	(0.01)	0.02	NM
FQ2 2025	(0.16)	(0.42)	NM
FQ3 2025	(0.30)	(0.19)	NM
FQ4 2025	(0.51)	(0.34)	NM

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Call Participants

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Vice President of Investor Relations

Jim R. Fitterling
Chair & CEO

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Presentation

Operator

Greetings, and welcome to the Dow Fourth Quarter 2025 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the call 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; Karen S. Carter, Chief Operating Officer; and Jeff Tate, Chief Financial 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 fourth quarter and full year results, Karen will provide an overview of our operating segment performance, and Jeff will share some details on the macroeconomic environment and our modeling guidance for the first quarter.

We will also provide updates on several of our strategic priorities, including the transformational work that we announced earlier today, an update on our Alberta project and several of our in-flight actions that aim to provide near-term cash support and ensure we maintain our financial flexibility. 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. Team Dow continued to execute with discipline during a year marked by persistent macroeconomic challenges and trade and policy volatility as well as anticompetitive behaviors by certain industry players. In the face of external pressures, we managed what was within our control.

Our fourth quarter operating EBITDA was $741 million, reflecting an expected sequential decline from lower seasonal demand and typical margin compression across many end markets.

Looking across 2025, we accomplished several impactful near and longer-term milestones, all while the market wasn't providing many tailwinds.

We identified more than $6.5 billion in near-term cash support items and delivered well over half in 2025, including the accelerated delivery of our in-year cost savings from our $1 billion cost out program.

And we further strengthened our global manufacturing footprint. This includes our announced plans to shut down upstream high-cost assets as well as the completion of our remaining incremental growth investments, which serve downstream higher-value markets that are growing above GDP.

We were also once again recognized as one of the world's best workplaces. This reflects direct feedback from our employees about the culture and talent that continues to drive Dow forward.

As we move into 2026, we recognize that many markets are fundamentally shifting. Geopolitical dynamics, rapid advances in AI and automation and economic volatility require new breakthrough approaches, greater agility and continued technological adoption. That's why we announced our Transform to Outperform program earlier today. This work builds on our track record of taking proactive measures to help Dow, and it represents a fundamental change in how we will operate and serve our customers. We believe this will strengthen our long-term competitive position through every part of the economic cycle.

And lastly, we have finalized a value-maximizing path forward for our Path2Zero project in Fort Saskatchewan. We'll share more details on all of this later in the call. But before that, Karen will cover our fourth quarter operating segment performance.

Karen S. Carter
Chief Operating Officer

Thank you, Jim, and good morning to everyone joining today. Dow cost savings measures gained significant traction across every business in the second half of 2025, which is reflected in our fourth quarter performance. Despite continued industry pressures, we are delivering on our commitments and self-help actions.

Beginning with our Packaging & Specialty Plastics segment on Slide 4. Fourth quarter net sales were $4.7 billion, with year-over-year and sequential decreases that were largely driven by lower downstream polymer prices.

Volume decreased 2% year-over-year. This was primarily due to lower merchant olefins sales in Europe, the Middle East Africa and India, following our previously announced decision to idle one of our crackers in the Netherlands. Polyethylene sales volume increased year-over-year and grew sequentially, driven by continued global demand growth.

Operating EBIT was $215 million, down from the year ago period, driven by lower integrated margins. Sequentially, operating EBIT increased by $16 million. This was driven by the company's cost savings efforts throughout the quarter, which more than offset margin compression.

In addition to lower fixed costs, Packaging & Specialty Plastics benefited from higher licensing revenue, increased energy sales and higher sequential volumes in polyethylene. Through a challenging environment, Team Dow set an annual ethylene production record for the third consecutive year.

The strength of our cost-advantaged asset footprint, our focus on operational excellence and the early impact from the start-up of our new Poly-7 polyethylene train in the U.S. Gulf Coast, which serves high-value downstream markets.

Next, turning to our Industrial Intermediates & Infrastructure segment on Slide 5. Overall demand for industrial applications remain challenged, which continues to pressure the industry and our businesses. Net sales for the segment were $2.7 billion, down 9% versus the same period last year.

Sequentially, net sales decreased 5%, mainly due to lower local prices and seasonally lower building and construction volumes. Volume decreased 1% year-over-year, primarily driven by lower volumes in polyurethanes and construction chemicals. This was partly offset by higher than typical seasonal demand for deicing fluids which have continued into 2026.

Operating EBIT decreased $285 million versus the same quarter last year and $154 million sequentially, driven by lower integrated margins. Our cost savings in both businesses helped offset some of the decline.

We also completed the shutdown of our higher-cost upstream propylene oxide unit in Freeport, Texas, rationalizing approximately 20% of North American PO industry capacity.

Moving to the Performance Materials & Coatings segment on Slide 6. Net sales were $1.9 billion, representing a 6% decrease compared to the same period last year. This decline was primarily driven by a 4% reduction in local prices across both businesses.

Sequentially, net sales declined, reflecting typical seasonal slowdown, particularly in building and construction end markets. Volumes decreased 2% year-over-year driven by lower supply availability from planned maintenance in coatings and performance monomers while volumes in Consumer Solutions were flat.

Even with the impact from tariff uncertainties, we delivered increased volumes in 2025, marking the second consecutive year of growth for our downstream silicones franchise. The business remains focused on shifting our mix towards higher-value products while reducing upstream capacity. This strategy advances our previously announced European asset actions, including plans to shut down our basics siloxanes plant in Barry, U.K. by mid-2026.

Operating EBIT for the segment increased by $34 million compared to the year ago period, driven by strong demand for our electronics and mobility applications as well as our ongoing efforts to reduce costs.

On a sequential basis, operating EBIT was down $55 million, largely driven by lower monomer supply availability from our planned turnaround in Deer Park, Texas as well as typical low seasonal demand.

To summarize our fourth quarter performance, even with continued industry challenges and normal seasonality throughout our portfolio, our self-help actions enabled us to deliver results ahead of expectations.

In 2026, we will continue to operate with discipline while taking decisive measures to adapt to market realities and transform our business for long-term resilience. I will touch on all of that shortly, but first, I'll turn the call over to Jeff, who will share some macroeconomic insights and our outlook for the first quarter.

Jeff L. Tate
Chief Financial Officer

Thank you, Karen. Good morning to everyone participating on today's call. Slide 7 shows that across the broader macroeconomic landscape, there are mixed signals in several of our end market verticals and key geographies. Recent developments are showing some encouraging signals in response to structural industry challenges as well as trade and tariff uncertainties.

This includes several announcements of further ethylene capacity rationalization as well as the elimination of VAT export rebates on select products in China. Across our packaging market vertical, global polyethylene fundamentals are expected to remain stable heading into 2026. From a price standpoint, ACC inventory shows a net draw in 2025, which should provide support for the price increases we've announced for January and February.

Across the infrastructure sector, building and construction conditions are likely to gradually improve as interest rate cuts over the past 12 months gain traction. Housing starts and existing home sales remain well below historical averages, but there are some signs of positive momentum with existing home sales increasing for 4 months in a row. Consumer confidence has improved slightly but remains near historic lows, continuing to weigh on overall demand. At the same time, U.S. retail spending is holding steady in several categories with resilient sales of electronics as a bright spot.

Mobility remains mixed. In China, EV sales are anticipated to moderate as subsidies expire and government support narrows, but growth rates are still expected to remain strong. And in the U.S., auto manufacturers anticipate a softer market in 2026 due to increasing costs. Overall, our teams are continuing to navigate a variety of dynamics across the key markets that Dow serves, reinforcing the importance of our disciplined cost actions, diversified market exposure and strategically advantaged manufacturing footprint.

As we've demonstrated in the past, we will continue to maximize value while making appropriate trade-offs. Throughout 2026 and beyond, we will build on this momentum to enable even further improvements in our top and bottom line performance.

Next, I'll cover our outlook on Slide 8. Our expectations for first quarter EBITDA is approximately $750 million. This sequential improvement accounts for anticipated margin expansion as well as the normal seasonal uplift following typically low fourth quarter market demand conditions. We also expect continued tailwinds from our efforts to reduce costs across every business, function and region. With that, some of these gains should be offset by higher planned spending on turnaround activities as well as lower equity earnings.

Turning to our operating segments. In Packaging & Specialty Plastics, we anticipate that price increases and lower feedstock costs will provide higher sequential integrated margins. Lower equity earnings from a cracker turnaround at our Kuwait joint ventures as well as lower licensing activity will represent a collective headwind of approximately $75 million in the quarter. Finally, planned maintenance at one of our crackers in Louisiana represents another headwind of approximately $125 million.

Moving to Industrial Intermediates & Infrastructure. We expect normal seasonal improvements in building and construction end markets. Additionally, positive demand momentum for deicing fluids should continue into the first quarter, providing a tailwind for the segment. Our cost savings efforts will provide an additional $10 million tailwind, while approximately $15 million for planned maintenance activity throughout the quarter is expected to offset these gains. And in the Performance Materials & Coatings segment, we anticipate typical seasonal improvements for Architectural Coatings as well as higher siloxane pricing following the increased market prices that happened in China late last year. Collectively, this will provide roughly $80 million of sequential tailwinds this quarter.

We'll also see a small uplift from lower maintenance activity following the completion of a planned turnaround at our Deer Park, Texas site as well as continued contributions from our cost reduction actions. Across the portfolio, this combination of factors results in improved operational results for the quarter. Our continued efforts to structurally reduce costs in every area of the company paired with seasonal demand improvements and expectations for margin-related tailwinds are meaningful. However, higher planned turnaround spending will weigh on first quarter results.

Looking ahead, as our transformational work and continued cost reduction actions progress, our teams will remain focused on managing what's within our control to preserve our financial flexibility. Now I'll hand the call back to Jim.

Jim R. Fitterling
Chair & CEO

Thank you, Jeff. Slide 9 outlines the key areas where we're focused on strengthening Dow's earnings power to ensure that we remain resilient through every cycle. First, we expect to deliver the remaining more than $500 million in cost savings by the end of this year from our previously announced $1 billion program. We're also executing a series of strategic moves that will uniquely position Dow to win. This includes the start-up of our remaining incremental growth investments in cost-advantaged regions as well as our announced shutdowns of upstream higher-cost assets.

Additionally, Transform to Outperform is expected to deliver at least $2 billion in near-term EBITDA improvement. About 2/3 of that will come from productivity gains and the remaining 1/3 from growth. This work will radically simplify how we operate, streamline our end-to-end processes, reset our cost structure and modernize how we serve our customers. We anticipate the outcomes to deliver step change improvements in productivity, more growth with our customers and greater shareholder returns.

And lastly, a refined timeline for our cost advantage Path2Zero project in Alberta will enable us to align capital deployment with market conditions and maximize project returns when demand improves. The underlying enabler to all of this work is our focus on maintaining financial flexibility while preserving our investment-grade credit rating. These actions form a cohesive road map that aims to strengthen our near- and long-term competitiveness.

Next, Karen has more details about several of these key strategic priorities.

Karen S. Carter
Chief Operating Officer

Thank you. Turning to Slide 10. As Jim mentioned, we are well on our way to delivering more than $500 million in cost savings, representing the remainder of our 2025 $1 billion cost savings program. This builds on our demonstrated ability to deliver higher-than-expected savings last year when we realized more than $400 million versus our original target of $300 million. In addition to that, we are executing several strategic moves that will uniquely position Dow to win, many of which will begin to materialize in 2026. For example, in Packaging & Specialty Plastics, we completed the start-up of our Poly-7 world-scale polyethylene train last year.

Using Dow's proprietary solution technology, Poly-7 is designed for lower cost and increased production capacity as well as improved efficiency and flexibility. The new asset is supporting customer-driven demand in specialty packaging, health and hygiene and industrial and consumer packaging applications. Additionally, the completion of our new alkoxylation capacity will support growth in Industrial Solutions, which serves attractive end markets such as home care, pharma and energy.

We're also progressing our plans to shut down higher cost upstream assets, including 3 in Europe, largely due to the ongoing structural challenges in the region. Each of these assets represent a meaningful portion of our regional capacity and are high on our cost curve. These shutdowns are cash accretive and expected to result in an annual EBITDA uplift of $200 million by 2029, with benefits beginning in 2026 with the shutdown of our Basics siloxanes capacity in Barry, U.K. by mid this year.

Next, on Slide 11, I'll walk through additional details about some of the work that is already underway as well as what's next. Transform to Outperform builds upon the self-help actions that we have implemented over the past few years. But importantly, it goes a lot further, representing a structural reengineering of our operating model and cost base. The goal of this transformation is to achieve significant growth and productivity gains that elevate Dow's competitive position. And while this transformation aims to simplify the way we work, it will not impact our long-standing commitment to our core values of safe and reliable operations.

In addition to simplification, we will focus on streamlining all of our end-to-end work processes and resetting our cost structure, and we'll continue to utilize the power of leading-edge practices and technologies to modernize how our teams serve customers in key fast-growing markets. We are bringing a full 360-degree view to this work, inclusive of external viewpoints, lessons from other industries and robust benchmarking in addition to our own expertise. And we have established a dedicated Dow team to drive our transformation efforts across every part of the company.

We anticipate at least $2 billion of near-term EBITDA uplift from this work, and we've outlined a clear timeline and understanding of the costs to achieve it, which we will hold ourselves accountable to. And 1/3 of this will come from new growth and the remaining 2/3 of the benefits will be in the form of productivity improvements. This year, we expect to deliver approximately $500 million in value. And as a reminder, this is on top of the more than $500 million we will deliver in 2026 to round out our 2025 cost savings program.

We anticipate onetime costs of approximately $1.1 billion to $1.5 billion, including $600 million to $800 million of severance and $500 million to $700 million of other onetime costs.

Next, I'll share a few examples of the early opportunities that we have already identified and are taking action on. First, as part of our commitment to operational excellence, we will simplify Dow's operating model. We do anticipate this will include a global Dow workforce reduction of 4,500 roles. It will also result in a reduction of third-party roles and resources. As the way we work evolves, so will our expectations for where and how work gets done. This will allow us to speed up decision-making and put the right roles in the right areas of the company to better align with the changing market landscape and with where our customers are investing. We will also adopt new ways of working. This includes streamlining all of our end-to-end work processes by leveraging the power of automation and AI, which we expect will result in lower cost and improved efficiency across the entire organization.

We will modernize the way in which we grow with our customers through our industry-leading innovation capabilities and deeper insights into customer and end market needs.

Finally, we will fundamentally reset our cost structure. This work will result in a renewed focus on improved raw material sourcing and logistics to drive further efficiencies.

These are just a few examples of how Transform to Outperform will deliver step change improvements in both growth and productivity. We're committed to providing you with updates every quarter as the work and value delivery progresses. And we are confident that these efforts will create a Dow that raises the competitive benchmark, is more resilient across the cycle and consistently delivers growth, customer success and shareholder value.

Next, Jim will provide an update on our Path2Zero project.

Jim R. Fitterling
Chair & CEO

Turning to Slide 12. In April last year, we announced that we would be delaying construction of our Path2Zero project in Fort Saskatchewan. This decision supported our near-term cash flow while also assuring the project timing would better align with the market recovery. After careful analysis and collaboration with all of our project partners, we have determined that completing the project with a 2-year delay is the most value-creating option. This moves Phase 1 start-up to late 2029 and remains the best option in support of our long-term value creation goals.

We remain committed to the strategic rationale of the project and the upside that it will enable in targeted applications like pressure pipe, wiring cable and food packaging. And we're confident that Dow can capture outsized growth in these markets for years to come, which will create value for shareholders. We are taking deliberate steps to ensure the new asset will be first quartile globally, further enhancing our low-cost footprint. And importantly, we do not expect any material impact to the cash and tax incentives associated with this timeline. On the execution front, several milestones have been achieved. This includes heavy equipment procurement and detailed engineering design. As we begin to ramp up workforce labor for the project, our robust risk mitigation strategies will help us ensure that it remains on track with current cost projections.

With the project delay and resulting incremental CapEx increase associated with it, we now expect returns of at least 8% to 10%. We anticipate that our efforts to reduce and mitigate costs will provide further upside, and we continue to advance several additional levers within our control that could further improve our returns.

For example, the value from low-carbon product premiums is not included in our base model, representing potential further upside of 100 to 200 basis points. The low-carbon supply agreement that we signed last year is a testament to the value that brand owners and consumers place on decarbonized products, and we have more in the queue.

Approximately 30% of the total project CapEx spend is complete, and we anticipate that Dow's CapEx spending will remain at or below D&A until we see mid-cycle earnings. And while our intention is to continue this project on a stand-alone basis, we remain open to all options that could enhance value provided they benefit Dow's strategy and support shareholder returns. Market conditions remain challenging, but the industry has made significant progress in 2025, including accelerating capacity rationalizations. We anticipate that the start-up of the Alberta project will align well with these industry operating rate improvements ahead of the next cycle peak. With that, I'll hand it off to Jeff to share more about how we're preserving near-term financial flexibility.

Jeff L. Tate
Chief Financial Officer

Thank you, Jim. On Slide 13, looking ahead, the strong financial actions we initiated in 2025 will help us continue to navigate a still challenging macro environment while executing with discipline and consistency. Taken together, these actions give us line of sight to more than $3 billion in near-term earnings uplift potential before the Phase 1 start-up of our Path2Zero project. In addition to this, our cash and cash equivalents balance was above $3.8 billion at the end of 2025. And Dow has approximately $14 billion of available liquidity, including a revolving credit facility that was recently renewed through 2030. And in 2025, we completed multiple actions to strengthen Dow's near-term cash flow, further reinforce our balance sheet and achieve lasting operational improvements.

For example, we received approximately $3 billion in total cash proceeds for our strategic partnership with Macquarie for the sale of a 49% equity stake in select U.S. Gulf Coast infrastructure assets. We lowered our cost by more than $400 million in the year, and we lowered our CapEx plans by $1 billion. In addition to that, we completed 2 bond issuances at attractive spreads for a total of $2.4 billion, pushing our next material maturity to 2029. And we made the prudent decision to implement a 50% dividend reduction.

Collectively, the actions we took provide near-term financial flexibility and support while maintaining our commitment to an investment-grade credit profile. Our teams will continue this momentum into 2026. This starts with delivering approximately $1 billion of benefit this year. As a reminder, this includes the more than $500 million of cost savings that remains in our 2025 program as well as an additional $500 million in operating EBITDA benefits from Transform to Outperform. And we remain focused on completing the remainder of our more than $6.5 billion in near-term cash support actions.

Our disciplined operating model, commitment to capital efficiency and the decisive actions we've taken over the last few years ensure Dow is well positioned to continue navigating near-term volatility. At the same time, Transform to Outperform will enable us to build towards sustained earnings power and a recovery. Next, Jim will provide closing remarks on Slide 14.

Jim R. Fitterling
Chair & CEO

Thank you, Jeff. In summary, 2026 represents an inflection point where our long-term vision and the steps we've taken to navigate a challenging down cycle come together to position Dow for stronger, more resilient growth. First and foundational to everything we do is our commitment to safe and reliable operations and financial flexibility. Transform to Outperform will become a central driver of new value creation. It builds on our core strengths and positions us to operate with greater speed and efficiency while also enhancing our focus on innovation and value creation with our customers. And with a revised timeline, our Path2Zero project will enable growth in high-value packaging, infrastructure and wire and cable applications.

The project represents a growth opportunity that is unique to Dow. It adds a first quartile cost asset in a globally competitive NGL basin and gives us the best portfolio of low-carbon product offerings. We also expect to fully realize the benefits of our near-term incremental growth projects, which expand our ability to serve high-value markets from cost advantaged positions.

And lastly, as Jeff just outlined, we're progressing several cash and cost support actions to give us even further financial flexibility in the near term. In summary, we're revamping our operating model, resetting our cost structure and enabling new growth. Our strategic priorities are clear. We are delivering on near-term cash and cost savings levers. We're investing where we have lasting structural advantages. We are simplifying, streamlining and modernizing to enable greater agility, and we are building a more competitive Dow that is positioned to innovate faster and grow more effectively with customers.

These are not new priorities. They are part of Dow's DNA, but it is a step change in how we operate that is especially critical in today's environment. 2026 will be about execution, discipline and accelerating the work we've already begun. And 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 Hassan Ahmed with Alembic Global.

Hassan Ijaz Ahmed
Alembic Global Advisors

Jim, a question around -- well, a 2-part question around capacity curtailments. In the last call, you guys obviously talked at length about seeing roughly 20 million tonnes of capacity rationalization. So would love to sort of get an update with regards to where we stand on that figure. And then part and parcel with that, about your decision to carry forward with the Alberta project.

I mean, how do you -- I mean, obviously, the returns seem favorable to Dow. But in the broader landscape, what compelled you to sort of go through with that decision? The fair obviously being that any sort of future upcycle if there's sort of "this phantom capacity" that lingers on, that may impede the sustainability of any sort of future up cycle. So I would love to hear your thoughts about that as well.

Jim R. Fitterling
Chair & CEO

Thanks for the question. I don't think there's a dramatically new data on the number of ethylene capacity rationalizations that have come out. We've seen more firm announcements out there. I think the total amount now is in the 15% to 20% of the European capacity that's coming out. I haven't seen anything substantive on anti-involution in China. So nothing has changed there.

On Path2Zero, I think several things in our view, the changes that are happening are going to lead to the next upcycle. We're at a point right now, and you've made this comment before in some of your writing that demand has been relatively lackluster, and we know what the supply situation is and where supply is going. And demand in some of the higher volume markets has been where things are soft. So as we see housing, construction, infrastructure, other things pick up, that's typically where you see things start to take off on operating rates.

As we mentioned, the low-cost assets, we ran them hard. We set an ethylene production record even with a cracker idled, a good cracker idled in Europe. So I think it speaks to running the low-cost assets hard. Path2Zero will put another cracker in the first quartile for us while we exit positions that are in the fourth quartile. I think that's something that we have to do in every cycle. We gave a guidance on the return on Path2Zero, which is at the low end, and there are some upsides in there. And those will be driven by things that we can do to mitigate the costs and obviously, continued success on bringing in the premiums for the low-carbon product that's coming out of there.

And we're able so far to see a good outlook on the cost picture. We've got the detailed engineering design essentially done. We've got the long lead time items procured. So we've got a pretty good handle on how the costs are coming in. The remainder is going to be the labor when we start to ramp that up.

Operator

Your next question comes from Vincent Andrews with Morgan Stanley.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Jim, on Alberta, just a few clarifications. This is a one more year of delay and then 100% moving forward? Or is there any potential off-ramp or other opportunity there? And then secondarily on that, it sounded like you were maybe saying you'd be interested in bringing a partner in, maybe I'm putting words in your mouth or looking at project finance or something else, but maybe you could just expand on other sort of things you might look at there and whether you're getting incoming interest around that.

Jim R. Fitterling
Chair & CEO

Yes, the 2-year delay, I think as we look at it, most of the change in the cost picture and the reduction in the returns is the capitalized interest on what happens with that delay. And so we had some of that and our partners had some of that as well. So yes, I think that is it. I mean, you have to have a very Armageddon scenario to look at something different. We don't anticipate that happening. When I mentioned about flexible arrangements, we haven't had any serious inquiry from a partner standpoint. I mentioned on the last call, we're always open to value-creating opportunities, and we still remain that way. I think there may be some creative finance opportunities there. As long as those are good return for shareholders, we'd be open to talk about those.

Operator

Your next question comes from Mike Sison with Wells Fargo.

Michael Joseph Sison
Wells Fargo Securities, LLC, Research Division

So the export market has continued to be continue to have really low margins, 0 margins, in most cases, for polyethylene. Can you help me understand how much of your P&SP capacity goes to the export market? And some companies have opted to reduce their capacity in the States because those markets remain low for quite some time. And any thoughts on how much of your capacity you want to be in the export market? And any thoughts about reducing that over time?

Jim R. Fitterling
Chair & CEO

Yes. Michael, about 30% to 40% of our P&SP volumes currently from our North American assets go to the export market. I think as we look forward, two things that we have to take into consideration is the cost position, ethane cracking and the rate cost advantage we get from that is especially important. The second is the product mix. When you look at the product mix that we put on the assets and are all of those products available globally? And in many cases, they are not. That has a big difference on the returns that we get on some of the exports.

It's going to be a shift. Obviously, there's a lot of shifts coming with all the trade talks with all the geopolitical tensions that are going on, but from our viewpoint, long term, the Americas are going to be advantaged from a gas cost position. The supply is there. They will be low cost. Middle East will continue to be advantaged and our position in Argentina looks to be -- continue to be advantaged.

So that's where we want to maximize, and that's where our investments. If you look at our investments, not just plastics, but across the board, they've been in our home bases that are in those low-cost positions.

Operator

Your next question comes from Jeff Zekauskas with JPMorgan.

Jeff John Zekauskas
JPMorgan Chase & Co, Research Division

Thanks very much. Your cash flow from operations was $1 billion. And in reading your slides, I guess, Slide 13, it looks like you got $450 million from long-term supply agreements and $250 million from divestitures. So excluding that cash flow from operations, $300 million. What are your expectations for 2026? And is that a correct assessment of what happened this year?

Jim R. Fitterling
Chair & CEO

Jeff, maybe I'll ask you to make some comments on the cash flow outlook. But Jeff Z, one of the things I would say is, clearly, we are working hard on restoring margins. So that's one of the first priorities. And then obviously, the cost-out actions that we mentioned, which are worth about $1 billion for this year on self-help actions, Jeff.

Jeff L. Tate
Chief Financial Officer

Jeff. A couple of comments I would make as you recognize, we're closing out 2025 with a really solid cash balance of almost $4 billion. If you add in those year-over-year earnings improvement opportunities that Jim just mentioned, one is the $500 million closeout of the $1 billion of cost reductions. Secondly would be the second -- the Transform to Outperform EBITDA uplift of $500 million. We've also got our growth investments and our asset actions that will deliver at least $100 million of earnings uplift year-over-year. In addition to that, Jeff, we'll have the $1.2 billion from the Nova proceeds as well as we're expecting a net working capital efficiency gain with the release of cash of $500 million during the course of 2026. So with each one of those actions from an EBITDA uplift perspective as well as direct cash flow infusion, we're in a good position to be able to support our cash flow needs going to 2026 and beyond.

Operator

Your next question comes from Chris Parkinson with Wolfe Research.

Christopher S. Parkinson
Wolfe Research, LLC

Jim, if you could just take a step back, just given the $6 billion quoted in the PowerPoint and what you're seeing in current polyethylene integrated margins. How do you see that evolving over, let's say, the first half of '26 through '27, '28, just given where we are in the cycle? What underpins those assumptions? And what do you think perhaps the Street is missing if you believe people are, let's say, particularly too low? Just your updated thoughts on that would be greatly appreciated.

Jim R. Fitterling
Chair & CEO

Yes. Thank you, Chris. Good question. I think we do expect integrated margins to improve even with the weather situations that we've had here, I think the input costs especially in the Americas has been very stable. The drawdown in inventories at the end of the year in North America has really helped as we lean into first quarter. We've gained some pricing power and moving things up.

So I think one of the things we got to be careful is that we're not extrapolating from a fourth quarter, first quarter data point, which typically are not the strong parts of the quarter. So we're talking about bottom of the cycle integrated margins. And you don't want to extrapolate those forward. And we will see demand improvement as we continue to move through this and see the rationalizations come.

Karen, any specific comments on what you're seeing in the marketplace right now on integrated margins?

Karen S. Carter
Chief Operating Officer

Yes. I think the other thing I'd add, Jim, is that from a polyethylene demand perspective, it remains resilient. It's still growing above GDP. You mentioned towards the end of the year that through November, we saw industry inventories come down by 400 million pounds. I think the other important data point is that November was the highest monthly volume of 2025 and actually set a total sales record, both from a domestic perspective as well as exports. So exports out of the low-cost regions in North America continued to be strong. And so we absolutely expect coming into the first quarter that integrated margins will improve, prices will go up in January, and even before the recent spike in the feedstocks that you referenced, Jim, the situation was already there, the conditions were there for prices to go up.

And the other thing -- last thing I'd mention is you have to keep in mind that industry integrated margins have been at this low level for a while. And so there's a lot of motivation and reason to move them up.

Operator

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

Kevin William McCarthy
Vertical Research Partners, LLC

Your II&I segment trended a little bit weaker than I think you and I both expected 2 or 3 months ago. So maybe a 2-part question. Can you talk about the variances that manifested in that segment versus your prior expectations? And then the second part would be on polyurethanes. I think in the past, you had discussed the strategic review of that business. Is there any update on the efforts there? Is it active or dormant? I appreciate any color there.

Jim R. Fitterling
Chair & CEO

Karen, do you want to touch on II&I and then I can come back on polyurethanes.

Karen S. Carter
Chief Operating Officer

Sure. In the fourth quarter, we did see normal seasonal demand declines, particularly in the building and the construction market. And the reality is that, that market just continues to be under pressure, not just domestically, but around the world. And of course, that is putting down more pressure on pricing. But also, if you think about housing, if you think about automotive, those markets are just weak around the world.

And so as we went into fourth quarter, we saw that we had some lower fixed costs as well as lower planned maintenance, but the building and construction end markets and durables just really offset that.

And we think about first quarter, we do expect to see some modest seasonal demand improvements and also tailwinds from cost actions. But we have a bit of planned maintenance that's going to offset that and again, just continued downward pressure, particularly in the building and construction market.

Jim R. Fitterling
Chair & CEO

On Polyurethanes, we continue to look for the best options, Kevin, on a go-forward basis for the Polyurethanes franchise. We're obviously making a lot of changes. We noted that we took out 20% of North American PO capacity at the end of first quarter. So we're having some rationalization in the industry on higher cost assets to kind of address the oversupply situation there. I would say, additionally, the team has been very busy on the trade front. I mentioned anticompetitive practices before, but Europe, especially has been hit very, very hard from dumping of material into the European continent. And this comes from regions that don't have any particular cost advantage to bring it in.

And so we've seen some actions, I think, are going to have positive impact. In China, for example, the announcement that the 13% duty drawback for exports out of China is going away; at the end of first quarter in April, I believe, is when it goes away. So there were companies that don't have the cost position to be able to export under free trade, fair trade rules that were getting 13% duty drawbacks for all their exports. That's going to go away. And you've got a whole host of cases on antidumping that are starting to take hold. There's been more traction in the Americas than there has been in Europe. Europe is a bit slower to respond, but it is on the radar screen and it is getting attention in Europe.

Operator

Your next question comes from Matthew Blair with TPH.

Matthew Robert Lovseth Blair
Tudor, Pickering, Holt & Co. Securities, LLC, Research Division

Could you talk a little bit more about your outlook for feedstock costs for your U.S. cracking business? I think you mentioned that Q1 should benefit from lower ethane costs, which makes sense based on just the quarter-to-date numbers. But are you concerned that ethane might rise later in 2026 with the start-up of 3 new natural gas pipelines from the Permian. And then long term, how do you feel about the overall availability and pricing for natural gas and ethane, given all this competing demand from AI and LNG?

Jim R. Fitterling
Chair & CEO

Matthew, good question. I mean energy sector is one we watch pretty closely. In general, I would say the electricity demand that drives that power demand for AI and tech is a good thing. America has the production capability and it will drive the natural gas production. And as the natural gas needs rise, obviously, people will want to take the natural gas liquids out to get the maximum return they can. And we see about 8% growth in the fractionation capacity coming at the end of 2026 and into 2027.

So I think there's going to be plenty of ability to take that ethane out, and we'll have pretty good NGL prices through there. We've got $0.20 to $0.23 right now in the price outlook, which is a frac spread of about $0.25 a million BTU, $0 to $0.25. That's pretty normal.

And then I think the other thing that we have to watch is just what happens with LNG exports. And so LNG has been moving because of the exports. So we have to watch LNG export capacity and approvals and timeline when those come on. The short-term spike that we just witnessed was because of freeze-offs on -- in the Haynesville and some of the other basins that were pretty cold. And so that creates a kind of a short-term supply disruption and a very cold weather environment where we're drawing down natural gas. So we've seen some pretty wild movements in that market. But that market clears pretty quickly. And I think as this weather moderates, you'll see things come back to normal.

Operator

Your next question comes from Matthew DeYoe with Bank of America.

Matthew Porter DeYoe
BofA Securities, Research Division

$2 billion, it's a really big number. I think one of the issues that we kind of see with productivity initiatives sometimes in commodity company is like it just kind of gets lost to the cycle. And we often hear, you should have seen how bad things would have been if we didn't cut costs.

So as we try to grade the curve, where will we begin to see the tangible evidence? Like there's $400 million savings in 2025. Where was that registering across the line items? I know you had mentioned II&I saw some benefits, but it's candidly a little hard to tell. And then there was comments about lower cost quarter-over-quarter in P&SP. Is that where we're seeing some of the $400 million in the fixed cost? And as we look ahead with the $2 billion, does SG&A move lower on an absolute basis? What segments will we see the most tangible uplift?

Jim R. Fitterling
Chair & CEO

It's a good question, Matt. And it's -- the $2 billion transformed outperformed target is 2/3 from productivity and 1/3 from growth. And so I think it's important to split those out. If I look back at last year and the cost out, of course, we had significant margin pressure, and we saw that on price. A lot of the savings that we saw came through came from cost to manufacture. And so when you look at our cost of goods sold, it would have come out in there, but obviously, in the face of a declining margin environment.

And I think we've also been in a low oil environment. And in general, for us, higher oil is a more constructive environment. And I think that's going to take some demand snapback in some of these bigger volume markets to see that. Karen, maybe you want to unpack a little bit about what's different about the approach on Transform to Outperform than what we've done in the past?

Karen S. Carter
Chief Operating Officer

Thanks, Jim. I think it's important to just highlight what Jim mentioned is that this is not just about cost out. This is not just about productivity, but it's also about growth. Just a couple of other things that are going to be different about this versus even the $1 billion cost restructuring that we announced in 2025.

First is really the scale and the speed at which we intend to deliver. So at least $2 billion between now and the end of 2028. This is about our entire operation. And so this is going to touch every aspect of the company, and we expect to see the benefits in all of the businesses. We're also being proactive about ensuring that when we achieve the gains, that we sustain the gains. We have a dedicated team at Dow that's driving these efforts. We are fundamentally looking at how we change the way we work, but also being careful about preserving the best parts of our culture and shifting where we need to.

And then we're also putting governance in place to ensure that there's complete alignment and accountability across the entire organization and that we are focusing on things that are going to drive shareholder value. So this is really a reset of our cost structure. It's also about streamlining our end-to-end processes and simplifying how we operate, including looking at the management structure, the management layers to reduce bureaucracy and complexity.

Operator

Your next question comes from Duffy Fischer with Goldman Sachs.

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

Maybe I can sneak in 2. First one, I believe Sadar is up for its debt refi midyear this year. So can you just give us some details about operationally, how Sadara is looking? And what does that debt refi mean for Dow? And then just the second one is, you gave us $1 billion on the Canada project at mid-cycle. What would that project be making in today's environment?

Jim R. Fitterling
Chair & CEO

Yes, on Sadara, we continue to keep a close eye on Sadara it's running safely and reliably. I'd say we had one small incident at the cracker this year. But the assets are in a good position on the global cash cost curve. Most of it has been around the financial structure. And Dow and Aramco are conducting an ongoing strategic review of Sadara, which is targeted to be completed during the first half of 2026.

The JV obviously operates very safely and very reliably. And we'll look at the -- and evaluate the opportunities to enhance the long-term resilience of the joint venture. I don't anticipate any cash payments to Sadara lenders in 2026. Sadara has got ample liquidity through their facilities and including some that they utilized in the fourth quarter. And of course, Dow and Aramco have support behind that, bearing guarantees behind that.

On the second part, I don't have a number for you on what that would be instantaneously, but I can ask the team to talk with you and see if they can get you an estimate of what that would look like. I do have the forward look, which we put in the slides, which is we still see the ability to generate $1 billion of uplift out of that project.

Operator

Your next question comes from Frank Mitsch with Fermium Research.

Frank Joseph Mitsch
Fermium Research, LLC

Just touching base again on this Transform to Outperform. Obviously, it's been a very difficult past couple of years, and now you're unveiling this big project, and I understand that it's going to touch everything that you do. And you mentioned earlier how much AI is playing a role in this. Is the fact that are you getting confident on the ability of AI to help achieve these productivity savings? And in terms of how much you're spending on the AI, have you seen a return as of yet?

I mean, how is AI being integrated into this whole -- into the Transform to Outperform? And obviously, when demand comes back, I would imagine that you would anticipate seeing all of this drop to the bottom line. Is that the current thinking?

Jim R. Fitterling
Chair & CEO

Yes. Frank, it's a good question. And I just want to make sure that we're clear that it's not all AI. So there are also going to be some fundamental changes. We're going to look at all of our integrated work processes from end to end and simplify those. So for example, in previous changes, we've looked at trimming third-party costs. We've looked at -- obviously, always look at procurement and what we can do to do better procurement and bring costs down for what we pay out to third parties.

But in this case, we're looking at how things are built into our system and how we do our work end-to-end and how can we take steps out, how can we automate things that are done either manually or handoffs within the system to date. And AI is going to give us a lot of possibilities there. Over the last couple of years and in the first -- we had not in 2025, but we had $1 billion cost-out program before that. And some of the money from that program actually went into digital capabilities and IT.

So one of the things that we have is we have a lot of high-quality data. We've got an intelligent data hub that we've built inside the company that AI on top of that will allow us to take a look at these work processes and really take steps out and streamline the whole thing. So we call it a reengineering or a rewiring of the way we do business globally. And then that can be baked into the system and automated. And that's one of the ways we'll keep cost out as we go forward.

We're seeing progress in many functions right now. Many different functions are using AI in ways that are speeding things up or reducing the cost to do things. We see it in legal, for example, patent research work. I'm doing discovery on cases on legal; there is a big cost savings there. We're seeing it in a lot of other applications. So I think it's going to be there. And we haven't really started to get into yet robots and AI and robotics together. I think at some point, we will.

On traditional AI, we've seen great progress, obviously, from using technology to make things safer and eliminate certain costs from turnarounds and things like cost of scaffolding is a big cost in a turnaround by using drones and crawlers with cameras and other kinds of technologies, we can eliminate big costs out of having to scaffold parts of plants to go in and do those turnarounds. So they're real numbers, and we're pretty confident that we can bring it to all of that to the bottom line.

On the growth side, also be some refocus on where we have our people position. I would say the focus will be on still boots on the ground on the sales side, sales, tech service application development. Our model is you've got to be at the design table with your customers, and you got to be on the ground to do that. So we'll look at how those are deployed. Are they in the right geographies and the geographies that are growing and then how we support that from behind the scenes inside the shop, see what we can do to automate to help them and bring better data to their fingertips.

Operator

Our next question comes from David Begleiter with Deutsche Bank.

David L. Begleiter

Deutsche Bank AG, Research Division

Jim, just on CapEx, can you discuss how you will be able to keep CapEx below D&A as you ramp up the spending on the Path2Zero project? And just on the -- is that due to any timing from the Canadian cash and tax incentives?

Jim R. Fitterling
Chair & CEO

Yes. Well, obviously, we've finished up in-flight growth projects. And so we've got a few of them rolling off. Our outlook for CapEx for this year is still $2.5 billion like we spent last year. So there will be some -- most of what we'll spend on Path2Zero this year is receiving long lead time items that will be delivered into the site. Most of the engineering work will get finished by the middle of the year. And so detailed engineering will be done.

We'll have the roll-off, obviously, of some of the growth projects that are already up and operating. And we have some small incremental growth projects that come along like in silicones that we need to support. And so that will get us through 2026. And then as we look at '27, '28, '29, and that's where Path2Zero will ramp up, we'll keep a pretty tight control on the rest of the CapEx spending and maintenance spending.

And as you can see from maintenance spending, we're right in line with our traditional levels, wanting to make sure, obviously, that we keep our asset footprint on the low-cost assets and keep them reliable. That's what's carried us through. So it helped us as well deliver in the fourth quarter. And so we want to continue to do that, make sure that they're in good shape.

No change on the Canadian receipt of the goods. Canada has been very positive and continues to be very supportive. So as we near that timeframe, obviously, we'll have discussions about timing, et cetera, on that.

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 today and we appreciate your interest in Dow. For your reference, a copy of the 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.