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# EDITED TRANSCRIPT

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## PRESENTATION

### Operator

Good day, and welcome to Dow's First Quarter 2019 Earnings Call. (Operator Instructions) Also, today's this call is being recorded.

I would now like to turn the call over to Neal Sheorey, Vice President of Investor Relations. Please go ahead, sir.

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### Neal Sheorey *Dow Inc. - VP of IR*

Good morning, everyone. Thank you for joining us to discuss the financial results for the Materials Science Division within DowDuPont.

We're making this call available via webcast, and we have prepared slides to supplement our comments during this conference call. They are posted on the Investor Relations section of Dow's website and through the link to our webcast.

Speaking on the call today are Jim Fitterling, Dow's Chief Executive Officer; and Howard Ungerleider, President and Chief Financial Officer.

Please read the forward-looking statement disclaimer contained in the earnings news release and slides. During our call, we will make forward-looking statements regarding our expectations or predictions about the future. Because these statements are based on current assumptions and factors that involve risks and uncertainties, our actual performance and results may differ materially from our forward-looking statements.

Dow's Form 10 as well as our Form 10-K include detailed discussions of the principal risks and uncertainties, which may cause such differences. Unless otherwise specified, all historical financial measures presented today and all financials, where applicable, exclude significant items.

We'll also refer to non-GAAP measures. A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained in the DowDuPont earnings release and on the DowDuPont and Dow websites.

And as a reminder, because Dow operated as the Materials Science Division of DowDuPont through the end of the first quarter of 2019, the financial results shared during this call are based on the Materials Science Division's financial performance as disclosed earlier today in DowDuPont's earnings release.

On Slide 2, you'll see our agenda for the call. We will start with an overview of the first quarter performance of the Materials Science



Division of DowDuPont. We will also discuss the results for each of our operating segments. Then we'll move into a financial overview of the quarter, which will also include some comments on modeling guidance. And finally, we will close with a discussion on our go-forward views. There will be plenty of time for your questions.

With that, I'll turn the call over to Jim.

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**James R. Fitterling *Dow Inc. - CEO & Director***

Thank you, Neal, and thanks, everyone, for joining us. I want to start by acknowledging the incredible accomplishments achieved by the Dow team to get us through our successful separation from DowDuPont on April 1. I want to thank every member of team Dow for all they did over the past 3.5 years to execute one of the largest and most complex spins in the history of corporate America. We are now fully operating as a stand-alone independent Dow with a streamlined and focused business portfolio that is well positioned to operate more productively, invest more prudently, grow more profitably and deliver higher returns to shareholders.

With that, let's turn to our performance in the quarter on Slide 3. The Materials Science Division of DowDuPont reported top and bottom line results in line with the updated guidance we provided a few weeks ago. During the quarter, the resilience of the Dow portfolio was on display as we were able to moderate the impact of year-over-year margin compression in siloxanes, isocyanates and polyethylene products, which impacted our core business results and our equity earnings.

We mitigated the headwinds in 3 ways: first, our continued demand growth in our differentiated applications was noteworthy, including silicones, polyurethane systems and packaging. This end market growth is an important highlight of the quarter as it reflects the ongoing strength we see from the consumer, and it speaks to our product and technology differentiation, customer relationships and value chain participation. This is not a new phenomenon for us as we have been growing in these applications for some time, and we continue to maintain our positive view of the fundamentals in these value chains. I will come back to this point later in the call.

Second, we continued to drive our cost reduction actions. We delivered more than \$125 million of incremental cost synergies in the quarter, taking our cumulative savings, since merger close, to nearly \$1 billion. And we also removed the first \$40 million of stranded costs in the quarter. We remain on track to deliver the incremental \$600 million of savings this year.

And third, we continued to benefit from our new U.S. Gulf Coast investments, which all ran at high rates in the quarter and contributed approximately 500 million pounds of additional polyethylene volume versus the same quarter last year.

Finally, during the quarter, we established the initial shareholder return targets for Dow. We confirmed an industry-leading annual dividend payout of \$2.1 billion and announced a \$3 billion open share repurchase program. Our commitment to shareholder returns was something we first outlined at our Investor Day in November last year, and it is a top priority of the Board and the Dow management team.

Turning to our segment results. On Slide 4, Performance Materials & Coatings operating EBITDA was \$481 million, down 18% from the year ago period, primarily driven by lower prices for siloxanes and shipping restrictions from our Performance Monomers facility in Deer Park, Texas due to a tank farm fire at a nearby third-party facility. Consumer Solutions sales were flat with the year ago period as gains in volume and local price were offset by currency headwinds in EMEA and Asia Pacific. The business achieved broad-based local price and volume gains for silicones products. Those gains were offset by price declines in siloxanes.

To put things in perspective, siloxanes' prices in China in the first quarter were approximately 30% below the peak pricing of the third quarter of 2018. But as we look ahead, we are encouraged that siloxanes pricing stabilized as we completed the first quarter.

Coatings & Performance Monomers sales were also down primarily due to the shedding of lower-margin business as well as weather-related events, which shifted seasonal demand in the construction industry in the U.S., Canada and EMEA.

On Slide 5, Industrial Intermediates & Infrastructure operating EBITDA was \$448 million, down 31% from the year ago period, primarily due to margin compression in isocyanates and MEG, which impacted both our core business results and equity earnings.



Polyurethanes & CAV delivered higher volume in all regions, but this was more than offset by lower isocyanates pricing. As I mentioned in my opening, our polyurethane systems growth was the highlight, expanding year-over-year about 2x global GDP.

Industrial Solutions reported lower sales on reduced local price and currency headwinds. However, the business grew volume in EMEA, U.S. and Canada in industrial, oil and gas applications as well as on strong demand for deicing fluids, lubricants and fuels.

On Slide 6, operating EBITDA for the Packaging & Specialty Plastics segment was \$993 million, down 24% from the year ago period. The key driver here was compression in integrated polyethylene margin. However, we were able to offset more than \$100 million of this headwind through cost synergy savings, increased supply from growth projects and lower commissioning and startup costs. The Packaging & Specialty Plastics business grew volume on higher demand in Asia Pacific and EMEA, supported by our new capacity add. From an end market perspective, our growth was led by Industrial & Consumer Packaging and Flexible Food & Specialty Packaging, 2 core sectors for our packaging franchise.

And finally, the decline in Hydrocarbons & Energy sales was primarily due to 2 factors: the first was our increased ethylene integration from startups of our new derivative asset; and the second was our tilt towards max ethane cracking in the U.S. Gulf Coast, which reduced coproduct sales in the quarter.

I'll now turn it over to Howard to discuss our overall financial performance and our modeling guidance.

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**Howard I. Ungerleider Dow Inc. - President & CFO**

Thanks, Jim.

Turning to Slide 7. Sales declined 10% to \$10.8 billion, in line with our guidance. Volume grew 1% with demand growth in many of our core businesses, including polyurethanes, Industrial Solutions, Consumer Solutions and Packaging & Specialty Plastics. These gains more than offset a decline in Coatings & Performance Monomers and a double-digit decline in Hydrocarbons & Energy. And as Jim mentioned, the hydrocarbons decline was primarily due to lower sales of coproducts. Excluding the Hydrocarbons & Energy business, the Materials Science Division grew volume year-over-year by approximately 3%. Local price was down 9%, largely driven by lower prices in isocyanates, siloxanes and polyethylene. Currency decreased sales 2% primarily driven by a stronger U.S. dollar against the euro. Operating EBITDA for the quarter was \$1.9 billion, down 24% versus the year ago period and also in line with our guidance. The key driver of the decline was margin compression in polyethylene as well as isocyanates and siloxanes. And these factors, along with lower MEG prices, also drove our equity earnings decline. But importantly, we were able to offset a portion of this with cost synergies, contributions from new capacity adds and growth in the more differentiated portions of our portfolio.

Now while Dow is not a stand-alone company in the first quarter, we were able to estimate our cash flow metrics on a new Dow basis. Free cash flow in the quarter was approximately \$600 million or \$200 million lower than the prior year period, primarily driven by reduced earnings, partly offset by a capacity reservation payment from MEGlobal related to our Texas-9 cracker expansion, which will support MEGlobal's new facility Freeport, Texas.

We also made further progress toward our targeted capital structure just after the quarter ended. We received the \$2 billion deleveraging payment from DowDuPont. And as we said we would, we used that cash to pay down a portion of the Dow Corning term loan. That pay down was executed in early April, so you'll see it reflected in our second quarter financial statements. This brings the Dow Corning term loan balance to \$2.5 billion.

And finally, as Jim mentioned, we also put in place our initial shareholder return targets. In early April, Dow's Board of Directors declared a second quarter dividend of \$0.70 per share. And we established a \$3 billion open share repurchase program, a portion of which was designated under Rule 10b5-1, which involved a prearranged trading plan.

Given our stock performance and spin, we have not yet repurchased any shares under the program. The 10b5-1 is expected to expire in June. And from that point, we plan to be opportunistic with our share repurchases and will be disciplined with how we allocate our excess



cash, taking into consideration all our priorities, including the dividend and deleveraging, to reach our targeted capital structure.

As we said before, our target is to return approximately 65% of our operating net income to our owners across the economic cycle. Within that, the dividend is our top priority for returning cash and share repurchases are the flywheel.

We're currently targeting share repurchases of approximately \$500 million for the remainder of the year. This is our base case target and does not take into account any additional nonoperational cash inflows.

Let's now take a closer look at the contributions from our joint ventures on Slide 8. During our Investor Day last year, we made a commitment to provide more transparency on our JV results. And today, we're providing those details. This slide gives you more granularity on the performance of what we call our principal JVs, our 3 most meaningful joint ventures, which account for the vast majority of Dow's equity earnings.

Including all JVs, equity losses for the quarter were \$10 million compared to equity earnings of \$208 million in the year ago period. The reduction was primarily driven by margin compression in MEG at the Kuwait joint ventures and isocyanates at the Sadara joint venture. And as is typical in the first quarter, we also received annual dividends from many of our JVs, which totaled more than \$750 million of cash inflow in the quarter.

Now before I turn to our modeling guidance, I would like to review some of the reporting changes that we're making now that we've completed our spin. This was another commitment we made, and we are moving quickly to the new reporting.

Slide 9 provides an initial look at the details to help you reconcile these changes and how they'll impact our historical results. There are 3 key changes that will impact our financial reporting and the way we discuss our results. First, as of our next quarterly report, we will switch to EBIT as our primary profit metric to reinforce the message that capital is not free. But we will still provide all the details for EBITDA as well for those of you who want to continue to track it. And as we shift to EBIT as our primary metric, we will also include the impact of foreign exchange in our definition of EBIT, which is how Dow historically defined our profit metric before the DowDuPont merger.

Second, we will transition to full market-based transfer pricing. This change will have an impact on the profit across our operating segment, but it will be net neutral to total EBIT at the enterprise level.

And third, we will also incorporate the impact of the new contracts and service agreements we will have with DuPont and Corteva. We plan to file a voluntary 8-K later this quarter by mid-June, which will provide you with quarterly recaps of our operating segment results incorporating these changes. Until then, you see on Slide 9 the estimates of what to expect for a few historical periods so that you can begin to incorporate these impacts into your models. While there are quite a few changes that we're putting in place, the net impact at historical EBITDA and EBIT is relatively modest.

Moving to modeling guidance on Slide 10. Given the current environment and the fact that we've just spun out as an independent company, we have provided our modeling guidance today on a sequential basis versus the first quarter of 2019. For those of you who prefer to look at the year-over-year comparison, you'll find a similar slide with that view in the appendix of today's deck.

On a sequential basis, we see overall demand remaining healthy in consumer and packaging end markets, which will continue to benefit businesses like our silicones, polyurethane systems and plastics businesses.

We're also now seeing margins stabilize. And in a few areas such as polyethylene, MDI and siloxanes, we're seeing the early signs of price increases starting with Asia Pacific. It's too early to tell how much traction we'll see in the second quarter, but these developing trends are a positive indicator for the second half of the year.

We're also entering the typical seasonal high period for our turnaround activity, which will be a headwind sequentially. We expect our turnaround spending in the second quarter to be approximately \$200 million higher than the first quarter or about even with our



spending in the second quarter of last year. These are planned turnarounds that are scheduled in advance for crackers who are on a roughly 8-year turnaround cycle and for derivative plants that's approximately every 3 to 5 years.

We will also be impacted by a fire that occurred at a third-party storage facility near our Deer Park, Texas site, which is limiting our ability to ship material. Our current assessment is that this limitation will continue through the second quarter and will result in approximately a \$40 million impact sequentially.

I'll now turn it back to Jim.

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**James R. Fitterling** *Dow Inc. - CEO & Director*

Thanks, Howard.

Let's turn to Slide 11 and the outlook. Global economy is still expanding, albeit at a slower pace than 2018. We're seeing strength in the overall consumer confidence and spending supported by a strong labor market and wage growth. Manufacturing activity also continues to expand in support of this demand.

But the trends are not synchronized globally. The U.S. remains a bright spot, while the EU and China are expanding at a more modest rate. And while personal consumption remains healthy, spending on big-ticket items, such as automobiles and home purchases and builds, remains tepid in some geographies. Additionally, ongoing trade negotiations remain front and center around much of the world. We think that a positive trade outcome could be a catalyst for increased economic activity. But that said, our plans as always are focused on what we can control.

Looking more specifically at our portfolio, we see early signs of stabilization and improvement in our key fundamental indicators. After several months of inventory destocking in many of our value chain, we saw inventory levels settled in the mid-to-late first quarter on normal demand seasonality. While we still see prices down year-over-year in areas like MDI and siloxanes, they have stabilized sequentially, and we see the opportunity to regain margin with price increases underway. We expect MDI fundamentals to be balanced through 2021. And in siloxanes, we expect overall operating rates to remain high in the near term as demand continues to outpace supply.

The global ethylene market is relatively balanced on a regional basis today with some links in the U.S. Gulf Coast. We expect polyethylene demand to outstrip the recent ethylene supply additions starting in the second half of 2019. Our view of the cycle has been consistent for several years, short and shallow, and we see no reason to change that view.

In feedstocks, the naphtha-to-ethane spread is widening again after the large contraction in the fourth quarter of 2018. In some areas like Europe, this may be a near term headwind to margins. But over the medium term, it should be constructive to our product spreads. Also, the risk of an ethane price spike in 2019 has vastly reduced due to new NGL infrastructure capacity coming online, coupled with delayed ethylene capacity adds as well as the turnaround season in the second quarter.

The result is a significant reduction in the market's forward view of ethane prices for the year. We still expect near-term ethane prices to be somewhat volatile as the industry works through the timing of new ethane demand versus supply. But fundamentally, we expect upward pricing pressure to be moderate and spikes, if any, to be short-lived. We saw a realized example of this in the back half of 2018. And I think what surprised many people outside of our industry was how quickly these energy and feedstock markets changed, which is something that is often underestimated. And additionally, people underestimate how quickly Dow's assets can shift.

We have leading feedstock flexibility and commercial capability to adjust quickly to these markets, and we have full chain integration and a differentiated portfolio to further mitigate the impact of the swings.

To that point, as I mentioned before, our focus on increasing the consumer-driven bias of our portfolio is paying off, particularly in consumer care, packaging and infrastructure sectors. There are a few examples on Slide 12.

In our silicones franchise, we have prioritized the growing use of our siloxanes toward our performance silicones business, where we can convert that siloxane into differentiated silicones that provide our customers with tremendous value and use. And our efforts are delivering. Every quarter since we brought this franchise into our portfolio, we have driven silicones growth that has outpaced global GDP. And consequently, our teams are unlocking incremental capacity to continue to meet growing customer demand. So far this year, we have already completed 4 debottleneck projects, and we have more than a dozen still on deck with incremental expansions in every geography.

Another example is in our polyurethanes business. The business has been able to partly dampen the impact of isocyanates margin compressions with continued above GDP growth in systems applications in furniture, bedding, white goods and other durable goods. As a result, our polyurethanes business has now achieved year-over-year demand growth for 23 consecutive quarters.

And finally, in Packaging & Specialty Plastics, we've been growing volume for several quarters on our strength in Industrial & Consumer Packaging and Flexible Food & Specialty Packaging. These are parts of the value chain where we are the proven market leader. And for our global asset base, our new capacity and expertise in local markets have enabled us to place new pounds efficiently in the market and deliver them with the highest value application.

The common thread across these examples is their connection to the consumer and everyday life. And for us, this is another indicator that consumer spending remains healthy. And that benefits the Dow portfolio.

I'll close with a quick recap on our near-term priorities on Slide 13. These are the same priorities that we've shared with you over the past several months, and I'm proud of the progress that we're making against each. But there is still work to do. While we see the early signs of improvement in our value chain, it is still early days. That's why our focus remains on being very disciplined with where we allocate our capital and our resources.

Nothing has changed in our mindset of preferentially driving lower risk, faster payback projects while keeping our CapEx well within D&A levels.

We've made substantial progress against our cost synergy capture and stranded cost removal targets, but we still have work to do. Our focus on a lean cost structure is still very much in place, and we will deliver the \$600 million of incremental savings this year. And as you've seen over the past few months and today, we're committed to a best owner mindset and an enhanced level of disclosure.

To wrap up, first, I could not be prouder of our team for working through all the complexities of our successful separation from DowDupont. Team Dow embraces challenge and took it head on. Second, the resilience of our portfolio showed through in the quarter, notably in our consumer-driven businesses where we can take advantage of our innovation and differentiation. And third, we believe that the fundamentals in our key value chains are beginning to stabilize. And as we look through the second quarter, we see early signs of inflection points that could materialize in the middle of the year.

Going forward, our capital allocation and disciplined focus on higher return on invested capital, incremental investments, while keeping CapEx at or below D&A levels, is the right approach in this environment. And the Dow team remains focused on the actions within our control, capturing cost synergy savings and removing stranded costs, growing our differentiated positions, running our assets efficiently and continuing to be disciplined resource and capital allocators to drive value growth within each of our businesses and across the company.

Now I'll turn it to Neal to open the Q&A.

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**Neal Sheorey *Dow Inc. - VP of IR***

Thank you, Jim. With that, let's move on to your questions. I would like to remind you that our forward-looking statements apply to both our prepared remarks and the following Q&A.

Operator, please provide the Q&A instructions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question today will come from David Begleiter with Deutsche Bank.

### David L. Begleiter *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Jim, looks like in PE, you did get the \$0.03 increase in April. Given that increase, what's the potential for maybe an increase in May as well? And how should we think about earnings in the segment sequentially even with the headwinds from the turnarounds and going -- in this quarter?

### James R. Fitterling *Dow Inc. - CEO & Director*

Yes. So this week, IHS published up 3 for the month of April in the U.S. And we had expected that really in March. And that's why we had guided again in the middle of the quarter because that looked like it was sliding out. There are increases out there -- other increases out there for the second quarter, and we feel like we're building momentum into that. The core earnings are going to improve sequentially. That's what we've guided in the forecast. And then we just called out the turnaround expenses because, sequentially, they're higher. Our turnaround expenses are about the same as they were second quarter last year, but they are higher than first quarter, and that's just because of timing. As you know, some of these turnarounds, crackers are on 8-year cycles, and some of these derivative plants are on 3- to 5-year cycles. This is the time of year to take them. And I think in this market environment, we decided to do them in second quarter and not try to push anything out.

### Operator

And next to move on to P.J. Juvekar with Citi.

### P.J. Juvekar *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

Jim, long-term big picture question. When you look at Aramco's crude-to-chemicals strategy, you look at Exxon and Phillips wanting to build more crackers, it seems like there is more interest and always (inaudible) pointing to cracker assets. What do you think? Will they buy? Will they build assets? How do you strategically think about what oil companies are trying to do? And where does Dow fit in?

### James R. Fitterling *Dow Inc. - CEO & Director*

Thanks, P.J. It's difficult for me to telegraph someone else's strategy. I would say I think what's happening, there've been many reports out there about the value creation in petrochemicals. It's been one of the sectors over the last decade, 14, 15 years that's created some high value. So I think people are interested in that. There are different driving forces for everybody. Our driving force for our strategy is to grow with those consumer-driven differentiated markets. And so we'll be focused on developing products like performance silicones, better packaging products, polyurethane systems. Our Industrial Solutions that go downstream, working on coatings. Both our architectural and industrial coatings portfolios, our adhesives portfolios to continue to grow that business.

And then, of course, we'll look at the back integration. Is that a better make versus buy decision? Where is the best place for us to be? Is it U.S. Gulf Coast where you've got this tremendous NGL advantage and ethane advantage and where we can tie into the flexibility that we have and benefit from that. And that's a different driving force obviously than someone who's looking at maybe a future market that's peak oil and looking at what are they going to do with different barrels of oil.

There are different chemistries out there. There's a lot of things going on. There's different strategies, partnerships around the world. So you might take the oil and do partnerships. You might make acquisitions. But in most cases today, the industry has shifted to cracking lighter. And so if you're going to make acquisitions to think that you're going to convert oil to petrochemicals, in most cases, you would be making acquisitions that are today probably NGL cracking.

So I think there are a lot of things that have to play out. I feel good about our investments and our position. We took advantage of the first wave of shale. We were up first. We got our projects done on time. We got them done under budget, and they're going to be the most efficient capital projects in that cycle.





**Operator**

And next, I move on to Vincent Andrews with Morgan Stanley.

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

Yes. I've gotten a lot of questions this morning about 2Q and sort of what's in the slides. And maybe you could just help us with a little bit more detail on the 3 segments, more explicitly on sort of forget about all the turnarounds and so forth but just on an underlying basis, slight modest know, how much improvement should we see for the 3 segments sequentially?

**James R. Fitterling *Dow Inc. - CEO & Director***

So if I go to the slide that was in the deck, Slide #29 in the deck, you've got the sales drivers and the EBIT drivers for the second quarter. And really, the only thing that we called out is the specific headwinds from the turnaround costs. The core earnings I expect to be up. So Performance Material & Coatings, I think, we're going to see sales moving up. Siloxanes pricings have stabilized and started to move up, so that's going to help. Silicones pricing has held up well, and the issue there is just getting more capacity online to support that. So we had 4 debottlenecks in the quarter that came online, and we've got 12 new incremental projects for downstream silicones coming online through the year.

In industrial intermediates, the big drag on industrial intermediates was really equity earnings, and it was ethylene glycol from the Kuwait joint ventures. The core business is growing there. Now we've announced some alkoxyates capacity. That won't come on in second quarter. That's a longer-term bet, but they're going to be up 3% to 5% in sales. And Packaging & Specialty Plastics is going to be up 3% to 5% in sales, and it's going to benefit from, obviously, the pricing that we're seeing coming through in April. And good to start the quarter with that and build that momentum. And then also the better cost positions we've seen on ethane. 2 fracs came up in the quarter, and so they'll come up ahead of the ethylene capacity. And that's really what's put that ethane future's curve down. So I believe you're going to see the core earnings move up sequentially, Vincent. And we just called out the turnarounds to make sure everybody understood what the magnitude of that cost would be in the second quarter.

**Operator**

Jeff Zekauskas with JPMorgan will have our next question.

**Jeffrey John Zekauskas *JP Morgan Chase & Co, Research Division - Senior Analyst***

I have a two-part question. Looking at Slide 12, it looks like perhaps your polyethylene sales volumes were up about 6% in first quarter year-on-year, which I think is about the level of your capacity expansion. And so is the meaning of that, that the global polyethylene industry or global polyethylene demand really didn't grow in the first quarter, but you were able to grow 5% or 6%?

And then the second part is I think Howard said that no shares were bought back in the 10b5 program. So does that mean that the trip price at which you would buy back shares wasn't hit as Dow traded as an independent company?

**James R. Fitterling *Dow Inc. - CEO & Director***

I'll take the first part, and then I'll hand it over to Howard on the 10b5. Polyethylene sales were up. The demand there was good. And obviously, we had the additional 500 million pounds from the Gulf Coast assets. And those ran hard, so we moved that through the quarter. And also, we saw inventory levels through the quarter kind of come back to the normal level, so we're able to get some material moved out. Some things had backed up at the end of fourth quarter '18, as you know, in the U.S. Gulf. And so we saw some of that stabilize through the quarter. I know you think that's another big factor in why you see the pricing moving up. You've got inventories going back to kind of the normal level in the Gulf Coast. On the 10b5, Howard can speak to that.

**Howard I. Ungerleider *Dow Inc. - President & CFO***

Yes. So you're right, we put -- so the short answer to your question is correct. It did not trigger, but we put -- just to give you a little bit more context, we put the 10b5-1 in place before the quiet period expired in the first quarter or so, before mid-March. That is going to be in place until early to mid-June. Basically, we need to get the 8-K with all the accounting changes that I articulated in the deck, so I gave you the estimates in the slide deck. Once we're in the process of doing all the final accounting, we're going to get that done as soon as we practically can. As soon as that 8-K gets published, then we can be in the market because -- with an open program as opposed to the



10b5.

The 10b5 was set up based on the feedback that Dow's stock could trade with substantial churn and volatility immediately post spin. So we put the algorithm in place to take advantage of the opportunistic intrinsic value, and the Dow stock traded very well. And so as a result so far, that hasn't kicked in. But like I said, the 10b5-1 is there until we get the 8-K out. Once we get the 8-K out, we'll be in the open market. And what I put in the prepared remarks this morning is our base case is approximately \$500 million of stock buyback for the year.

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**Operator**

Our next question, we'll hear from Christopher Parkinson with Credit Suisse.

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**Christopher S. Parkinson *Crédit Suisse AG, Research Division - Director of Equity Research***

Can you just comment further on your expectations for MDI and maybe TDI, understanding it's only at Sadara. Just following 2 of your primary competitors' comments over the last couple days. Just -- there's been some inconsistent end market commentary. So if you could hit on your own regional demand outlooks and expectations for a new supply cadence, it would be greatly appreciated.

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**James R. Fitterling *Dow Inc. - CEO & Director***

Thanks for the question. I expect MDI is going to continue to tighten through the year. I think you've got 2 things happening. The consumer-driven side of the business, so our systems business, where you had end markets like furniture, bedding, some level of white goods, durable goods, that business, some cold storage, cold chain businesses, has been relatively good. Where we see obviously you some things have been a little bit slower are housing starts and housing sales. So that's kind of slowed. And so you've got also automotive, and automotive is a lot of content for polyurethanes. So some of the big-ticket items are also big-demand pull items in that chain. So I'd say the consumer strength is really showing up in the numbers, 2x GDP for the systems growth, and that's without the big-ticket items pulling. So as we get through the year, I think you're going to start to see automotive pick up.

I would say in Europe right now, automotive is weak, and there's probably the biggest inventory of finished autos out on the lots and at the dealers that has to be worked through. So I'd say Europe sentiment right now is it's going to take a little bit longer to work that through.

The U.S. is relatively okay. North -- I'd say North America is relatively okay. And China's relatively okay. So I think as the year progresses, we're going to see those bigger-ticket items pull through a little bit more.

On TDI, as we said before, I think TDI is going to be long for most of the year. So we're not putting into our outlook any big increases in TDI prices or margins. Mostly the improvement will be on MDI.

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**Operator**

And next, I move to John McNulty with BMO Capital Markets.

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**John Patrick McNulty *BMO Capital Markets Equity Research - Analyst***

On Sadara, can you speak to some of the opportunities there to improve some of the profitability? I know there was, I guess, some hope about potentially rejiggering the debt, expanding feedstock slates, et cetera. So can you help us understand what leverage you can pull there to improve the profitability there?

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**James R. Fitterling *Dow Inc. - CEO & Director***

Sure. We're making obviously some sequential improvement in the first quarter from the fourth quarter in Sadara. It's about \$20 million better than it was in the fourth quarter. We're doing everything we can obviously to keep that moving. The pricing moves are obviously going to help Sadara. That will fall right to the bottom line. Sadara's been working actively on its own cost programs internally, and so they've been becoming more efficient in getting those costs down. And then obviously, we have been working with Aramco diligently on



things that we can do to help that out, including looking at the debt restructuring. So now that we've done the lender's reliability test and we've actually kicked off a team between Sadara and the 2 parents actively looking at how we can restructure that debt. And we'll have more to say about that a little bit later in the year. That team is off and running and, I think, making some good progress there.

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**Howard I. Ungerleider *Dow Inc. - President & CFO***

And I would just add, John -- this is Howard. Every product manager who has accountability for an asset there is working on the sell upside of that, so that's optimizing the product mix, cutting the fourth quartile and adding to first or second quartile margins and look at the profitability on a margin velocity per hour of production, and that's how they're held accountable.

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**Operator**

And we'll move on to Jonas Oxgaard with Bernstein.

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**Jonas I. Oxgaard *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***

If I could continue the line of question of Sadara, it looks like MDI and TDI, to get to that, was it \$27 million EBITDA for the quarter, MDI and TDI must have run at negative margins. Is there any consideration of shutting down those assets?

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**James R. Fitterling *Dow Inc. - CEO & Director***

I don't believe that's a fair assumption. I'll have to ask Neal and the team to get back to you and walk through those numbers. But we would not have run them at negative margins. The teams are very disciplined about taking a look at that. So there may be some mix assumptions or other things that are in there. We've got a lot of activity going on within Sadara to try to get that mix shifted. We've got supply chain costs that we're working on, so we're optimizing around the supply chain to make things a little bit more efficient. The plant has been running well, so the asset has been good. We don't have any issues there.

We've looked at obviously all the things we can do on the feedstock side to improve it, as you know. Sadara's feedstock position, that's really the naphtha crack is what goes downstream for all that integration into isocyanates. And so we've been looking at what we can do there to get some better cost position in there.

But I think relative to where they are today, we're going to start to see things stepwise improve just on the basis of the market demand. And if we got a trade agreement through with China, I think that would be helpful. At least, it would be helpful in the near term on the market psyche, but it would be helpful into the second half of the year.

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**Operator**

And next, we move to Hassan Ahmed with Alembic Global.

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**Unidentified Analyst**

Wanted to sort of continue on the JV side. The Kuwaiti JVs, Kuwait in particular, continue to be quite weak earnings-wise. I would imagine, obviously, ethylene glycol was the culprit. Is there any sort of bottoming out of glycol in sight. The polyester market continues to be quite weak as well. So how should we think about the Equate earnings over the next couple of quarters?

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**James R. Fitterling *Dow Inc. - CEO & Director***

Thanks for the question. Yes, the drag really on Kuwait JVs was ethylene glycol pricing. And if you look at the year-over-year pricing, it's quite a bit down. Now what we've seen through the quarter is obviously the inventory levels have started to improve in China. The demand pull, as you mentioned, hasn't yet kicked in. This is one of the areas in the China trade agreement. If you know, textiles had some tariffs coming back into the United States. That really put the brakes on some of the exports out of China, and that kind of backed up some of that capacity. So as we get this trade agreement through and we see what happens, if that gives a little bit more confidence to the textiles industry in China to be able to move some material in here, then that would be immediately visible in the marketplace. So that might give us some momentum on ethylene glycol pricing. The PET side of the equation has continued to be strong. So we really need the polyester side to pick up to see that pricing move.

And I would also say that typically, when we pull out of one of these compression periods, PE and ethylene glycol is what you start to see



turn. We've seen PE turn here in the month of April. So I think we could probably see also some cost push on the ethylene side in China that may start to move things up a little bit.

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**Operator**

And our next session, we'll hear from Frank Mitsch with Fermium Research.

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**Frank Joseph Mitsch *Fermium Research, LLC - Senior MD***

Jim, you were discussing your consistent view on the cycle as being short and shallow. And I would imagine that given your outlook, you're expecting that 2020 would probably show some EBITDA growth in the polyethylene business. What is your outlook call in terms of the back half of the year? Is there -- are you guys forecasting that you might be seeing year-over-year improvement in the back half of the year on polyethylene? Or is that really more of a 2020 sort of event?

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**James R. Fitterling *Dow Inc. - CEO & Director***

We're running right now at about 4.5% growth rate is what our outlook for the year is. And obviously, we started relatively slow in January and February. So I think that's going to pick up pace.

Second quarter is shaping up well. I think third quarter is usually very strong, and we'll see how we finish the year. And obviously, I think we'll finish it a little bit better.

The other thing that's happening is when you look at the supply that's coming on. Obviously, we think that demand is going to outstrip the amount of incremental supply that's coming on. And so you're going to see that in the back half of the year.

A lot of capacity came on in the last 2 quarters of last year -- a lot of polyethylene capacity came on in the last 2 quarters of last year and was finding its way into the market in Q4, especially in December, when China went dark on us for the last 2 weeks. That backed up inventories. People were scrambling to move that around to the markets. You saw some of that actually hit Europe in a big way, and that really compressed some margins there. I don't think we've got that same kind of magnitude in the back half of this year.

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**Operator**

And we'll hear from Steve Byrne with Bank of America Merrill Lynch.

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**Steve Byrne *BofA Merrill Lynch, Research Division - Director of Equity Research***

Jim, you mentioned higher naphtha pricing and just wanted to hear your view on cash margins for the top end of the polyethylene cost curve, particularly the Asian naphtha producers, and your outlook for naphtha pricing in that region and whether the margins in that area could affect those producers' behavior, whether it's on pricing or operating rates.

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**James R. Fitterling *Dow Inc. - CEO & Director***

Yes. So I think a couple of things. I think the naphtha ethane and the propane naphtha spreads are both starting to open up, which will be beneficial. We've seen some move up, a little bit of a move up, in Asia on ethylene due to that. I think we could continue to see some more of that. I won't try to predict what oil prices are going to do, but we kind of going to this year thinking they would be in the \$65 to \$75 barrel range. I don't see any reason to think any differently. I do think we've tested lows on natural gas. So we've been at \$2.50 on natural gas. And with all the oil that we've been producing and the associated NGLs, that's helped bring those forward curves down. So anything that we see in terms of these naphtha, ethane and pro-nap spreads is going to be helpful to us as we move through the year.

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**Operator**

And next, we'll to move to John Roberts with UBS.

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**John Ezekiel E. Roberts *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals***

I wanted to go back to the JVs. You did a good job several years ago cleaning up the JVs. And what's the role of the Kuwait and Thai JVs in the portfolio? Obviously, there's some strategic projects -- products in there like polyethylene to Dow, but there's also some products that don't seem to fit longer term with your strategy.



**James R. Fitterling Dow Inc. - CEO & Director**

Well, the Kuwait -- let me start with the Kuwait JVs and obviously, that was a very strategic one from a standpoint of ethylene glycol. It was a way to put together at the time when we did it, obviously, the world's largest ethylene glycol business together with the Kuwaiti. So MEGlobal is continuing to grow in that format and that structure, and that's been positive for us. And they've been also able to participate and continue that growth down in the U.S. Gulf Coast. So I think that's good. They clearly were already marketing ethylene glycol and carbide set that JV up obviously on its own to market the polyethylene so we don't do anything together there other than be an equity investor in polyethylene.

Thailand was always an Asia growth play and continues to be that. And where we have strategic interests together, we'll look at that. And where we've got lines of business there that may be strategic to one of us and not the other, we'll look at options there. But both of those JVs are sustainable. They generate really positive cash flow and dividends. They've got good balance sheets. They're healthy.

My first priority is getting Sadara to be sustainable, good balance sheet, generating the kinds of returns that we promised. So I'm not expecting big moves there. We did talk about obviously maybe doing some consolidation among the entities in Kuwait, and we'll still look at that. And if we can pull that off, that may be beneficial to us in '19.

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**Operator**

And we'll move on to Laurence Alexander with Jefferies.

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**Laurence Alexander Jefferies LLC, Research Division - VP & Equity Research Analyst**

Just two quick ones. Just to clarify the comment about performance materials, the core earnings being up sequentially. Is that including the sequential headwinds you called out were only before the sequential headwinds? Can you characterize inventory levels, and not in the polyethylene chain but in the derivative businesses? Just what you're seeing and whether there's any inventory destocking that might be needed later this year?

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**James R. Fitterling Dow Inc. - CEO & Director**

Howard, do you want to take the sequential earnings question?

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**Howard I. Ungerleider Dow Inc. - President & CFO**

Yes. Laurence, so if you look at the slide, I would say it's before. So it's the core earnings will be up, but will be offset by some of those sequential headwinds that we talked about on the call.

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**James R. Fitterling Dow Inc. - CEO & Director**

And we've seen -- I think I'd commented earlier on PE. And what we've seen is inventories in the isocyanates, especially in the MDI side, start to come down. And the demand pull on silicones on siloxanes is obviously helping that. So we think that silicones demand growth is going to continue to tighten up that siloxanes spare capacity that's out there, and that'll happen through the rest of the year.

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**Operator**

And next, we'll move to Robert Koort with Goldman Sachs.

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**Robert Andrew Koort Goldman Sachs Group Inc., Research Division - MD**

I was wondering, Jim, you guys obviously have one of the bigger exposures in Asia Pacific. Can you give us some sense on what's going on in China, both from the maybe the echoes of some of the plant problems over there and the environmental enforcement? And then maybe what you see on the appetite for future ethylene expansion. It seems maybe one of the consultants is a little more pessimistic on operating rates with some China expansions over the next 3 or 4 years. So hoping you could address both of those.

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**James R. Fitterling Dow Inc. - CEO & Director**

Yes. Thanks, Bob. Thanks for the question. I would say we had a good quarter in China. In total, our sales volumes were up double digits year-over-year, so we continue to grow there, and it's across the board. It's in all the businesses: polyurethanes, packaging, Consumer Solutions, obviously.

We don't have as much coatings exposure in China. We don't have too many facilities for coatings over there, and we don't have as much Industrial Solutions exposure. Most of that is exports out of Gulf Coast and out of Sadara. But I still feel good about the demand growth, and it continues to look good.

I think the operating rates are probably been held down because of the cost curve and because of where some things are on the cost curves. There's just a big advantage in the U.S. Gulf Coast on the NGLs, and that's probably what's held them down.

I think most of the environmental things are related to the incidents that have happened. And so you've had a couple of explosions and fires that typically always cause another relook at the industry and who's a credible operator and can operate safely and also who can operate at scale and return.

I think the biggest challenge has been the pricing compression that we saw in the fourth quarter. And so as we see those margins recover, you may start to see people take a look in China again at whether they can have a good investment there and, long term, make some money there. But it's the feedstock challenge. That's the toughest part of that. It's hard to find a good competitive feedstock there, and I think that's why you see most of the oil majors looking. And it's mostly refinery integration discussion that you see happening. You see some ethane discussion, but that requires a lot of CapEx to build ships to take ethane out of the U.S. Gulf Coast. There's really not anywhere else in the world that you can get ethane export. And if you start to drive that price up too high, then you're going to be looking back at naphtha as an alternative.

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#### **Operator**

And next, we'll move to Aleksey Yefremov with Nomura Instinet.

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#### **Aleksey V. Yefremov *Nomura Securities Co. Ltd., Research Division - Research Analyst***

I just wanted to return to Sadara quickly. If we look at last year's Q1 result of \$96 million of EBITDA, that's arguably close to peak environment. If you were to return to the same, sort of cash margins in your key value chains for Sadara, would that number be higher today because there's more capacity or more efficient operations? Or that's sort of the upper end of what you could achieve?

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#### **James R. Fitterling *Dow Inc. - CEO & Director***

Yes. I'm going to look to Howard here for a minute, but I don't think the Q1 or Q2 last year was peak environment. I think peak probably actually happened before that. So Sadara wasn't fully operational and running when we were at the peak of the cycle. Howard, do you have some comments on what you think that could be?

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#### **Howard I. Ungerleider *Dow Inc. - President & CFO***

Yes, Aleksey. I would just say it would be far above that number if you had the same conditions because remember, to Jim's point, it was a startup year. You had -- we were going through the punch list to get ready for the LRT for the entire year, taking assets up, taking assets down. And there was no sell up. It was all sellout kind of mindset at the time. So as you move forward, everything else being equal, Sadara will improve just based on the sell up side of the equation would be what I would say.

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#### **Operator**

And next, we'll move on to Duffy Fischer with Barclays.

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#### **Duffy Fischer *Barclays Capital***

First, just want to say thanks. I think the way you laid out the financials and disclosures around the JVs is very helpful and enlightening, so I appreciate that.

Second, just on the question, Jim, U.S. ethylene versus ethylene derivatives, ethylene's obviously gotten long. As you look out the remainder of the build out of the first wave here in the U.S., when do you think the derivative capacity gets to the point where you've got enough takeaway capacity for all the ethylene and then more the margin moves back to ethylene and away from the derivatives?



**James R. Fitterling Dow Inc. - CEO & Director**

Duffy, thanks for the comment on the disclosure. Look, we're trying to be more transparent and to respond to everybody's interests and get it out there. So I think you'll find we've got nothing to hide here. And you know the priorities for us are to continue to work on returns out of those so that people can see the value out of those JVs.

On the ethylene side, you're right. Because there hasn't been as much derivative capacity, that ethylene's been backed up. And what you see in the first quarter is people adjusting ethylene plant operating rates really to the derivative downstream operating rates. And derivatives are continuing to run hard in the U.S. Gulf Coast. So that's why we announced things like alkoxylates yield capacity expansions down in the Gulf Coast to convert more of that material. That's a high return to ethylene. I think by 2020, you're going to see that derivative demand's going to start to pull that excess ethylene that's out there. You also got a little bit of restrictions right now. There are not too many places that you can ship ethylene out, and one of them just had a large fire. And so that's caused us a little bit of more constraints. And so you've seen a lot of that margin in the short term disappear out of the ethylene part of the chain. But PE is holding up good, so I think if you think where we are in the cycle here and why we still say short and shallow is because PE margins are relatively strong. And we're seeing pricing coming back in April in polyethylene, so I think that's a good trend.

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**Operator**

And we'll move on to Kevin McCarthy with Vertical Research Partners.

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

Two-part financial question. First, I was wondering what your cash cost were in the quarter for restructuring. And then I think you had a plan previously to inject about \$0.5 billion into Sadara, I wondering if there was anything in the quarter related to that.

And then the second piece was I was wondering if you have a preliminary net debt figure to provide and whether that would be representative going forward.

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**Howard I. Ungerleider Dow Inc. - President & CFO**

I'll try to remember all 3 questions. But Jim or Neal, keep me honest here. So the restructuring on that same basis, so Dow tower last year spent \$1.4 billion on an apples-to-apples. We spent about \$500 million in the first quarter. We are -- that is the peak quarter obviously because that was the spin quarter. That number should trend down over the course of the year, and we're in line with that commitment to take \$200 million to \$400 million off of that \$1.4 billion. So kind of a \$1.1 billion midpoint is a good number for the year. The official -- when we ended the quarter, we were at \$20 billion gross debt. We had \$3 billion of cash, so net debt, \$17 billion. On April 1, we got that payment of \$2 billion from the DowDuPont tower, and we did de-lever. So our net debt on April 2, you won't see that until the Q2 earnings materials. And the net debt was \$15 billion. Was there a third question?

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**James R. Fitterling Dow Inc. - CEO & Director**

That's it.

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**Howard I. Ungerleider Dow Inc. - President & CFO**

Okay.

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**James R. Fitterling Dow Inc. - CEO & Director**

You got it.

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**Howard I. Ungerleider Dow Inc. - President & CFO**

Thanks, Kevin.

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**Operator**

And that will conclude today's question-and-answer session. At this time, I would like to turn the call back over to Neal Sheorey for any additional or closing remarks.





**Neal Sheorey Dow Inc. - VP of IR**

Thank you, operator, and thank you, everyone, for joining our call. We appreciate your interest in Dow. For your reference, a copy of our transcript will be posted on Dow's website later today. This concludes our call. Thank you.

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**Operator**

And that will conclude today's call. We thank you for your participation.

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