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Dow Inc

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Jeff Zekauskas: Hi, good morning. I'm Jeff Zekauskas. I analyze chemicals for J.P. Morgan. It's my pleasure to introduce the management of Dow Chemical, and to introduce Jim Fitterling, who's been CEO of Dow since 2018, but he's a long-term veteran of Dow.

He began his tenure at Dow in 1984. I think Jim was 22 then. He's had long tours of duty managing the various businesses in Dow in Asia. He's a very experienced and competent executive. Previous to being named CEO, he was the Chief Operating Officer at Dow. Dow is going to do a few slides and then what we'll do is we'll go into a fireside chat. Jim, welcome.

Jim Fitterling: Thanks, Jeff. Good morning, everybody, and thank you, Jeff, for having me. Before we get into Q&A, I'd like to offer a few insights to what's happening in our key markets as well as some of the progress that we're making on our near-term actions and our self-help measures.

We remain focused on what's firmly within our control, regardless of the situation that's unfolding in the Middle East, in addition to our view on how the macroeconomic landscape is changing for 2026. I'll provide some updates on the items that we're progressing to get Dow set up for long-term success, resilience, and continued industry leadership.

As we announced in January, this includes taking a transformative look at our businesses, our cost structure, and the ways in which we grow with our customers.

First, I'd like to emphasize that our ongoing self-help actions are progressing well. We're continuing to build on the strong delivery and disciplined execution that we demonstrated throughout 2025, and we're realizing the benefits of this momentum into 2026.

Turning to the market dynamics, while the underlying demand conditions remain largely unchanged from our update in January, the rapidly evolving supply situation has started to positively impact our order books.

We were already beginning to see market signs of improvement in the first quarter before the Middle East conflict began. Now, pricing actions and supply dynamics have evolved at a very rapid and constructive pace.

Specific to polyethylene, January polyethylene pricing in the Americas provided some encouraging developments, and total industry sales volumes reached record highs for the month. Industry inventory also remains well below the five-year average, reflecting industry working capital discipline and three years of destocking.

As we enter traditionally what is a busy demand season, we announced a 10 cent per pound polyethylene price increase across the globe in March, with an additional increase in April, including 15 cents per pound in North America.

In March already, we've announced price increases in every business in every region. Feedstocks are also rising outside of the Americas, notably naphtha into Asia, which is strengthening the global cost curve. Steepening the global cost curve, I should say.

This has led to numerous operating rate reductions and force majeures for industry assets that are high cost or feedstock constrained, and we anticipate further actions could be taken.

Global logistics have become uncertain with up to 50 percent of polyethylene supply either offline, constrained, or being impacted following the events in the Middle East. In addition, inventory levels are historically low across the value chain.

Given these dynamics, we continue to act with urgency and resolve in implementing our announced price increases while running our fleet hard and taking advantage of our geographic diversity and feedstock flexibility.

We're monitoring the post-Lunar New Year demand scenario to see the potential for any uplift following a typically low demand period in Asia. Early order book patterns look promising.

Recent feedstock volatility from a ramp in oil pricing is also expected to support a return to historic oil-to-gas ratios that benefit Dow's portfolio. As we have done previously, our teams will continue monitor these dynamics and remain focused on improving our progress.

We will leverage our leading low-cost position, our agile regional supply chains, and our world-class manufacturing sites in every geography to continue to support our customers' needs and

the needs of the broader market.

In Europe, higher co-product values, which have been depressed for several years, will once again improve competitiveness across the industry, leading to margin expansion in Europe. With all the puts and takes, we're becoming increasingly optimistic about the dynamics that could provide positive conditions as we go into second quarter.

As a reminder, March historically represents an outsized portion of Dow's first quarter earnings. Our quarterly performance will largely be driven by the results of this month. Our teams continue to leverage the benefits of our diverse market exposure and strategically advantaged manufacturing footprint on top of the disciplined cost and self-help actions underway.

As we demonstrated in the past, we're committing to taking strong and decisive actions to improve earnings. That starts with pricing leadership. Slide three outlines some more details on the levers we're advancing to drive earnings improvements and cash and cost support regardless of the near-term dynamics or a market recovery.

The targeted actions that we have in flight to deliver approximately $3 billion of EBITDA uplift over the next few years. We're on track to achieve approximately $500 million in cost savings by the end of this year to complete our previously announced $1 billion program.

Transform to Outperform, which is the initiative we announced in January, is expected to deliver at least $2 billion in near-term improvements in EBITDA, including $500 million of that this year. We're also executing a series of strategic moves that will uniquely position Dow to win across the cycle, including further strengthening our global manufacturing footprint.

This includes our previously announced plans to shut down upstream high-cost assets, where we'll begin to see benefits this year. Taken together, the completion of our cost efforts, the beginning of Transform to Outperform and our in-flight asset actions will provide an approximately $1 billion EBITDA improvement in 2026.

Additionally, in late February, the Canadian Court of Appeals denied NOVA Chemicals' request to stay the June 2025 infringement in Dow's favor. This reinforced NOVA's obligation to immediately pay. We've already received a substantial portion of the cash payment this month.

As we go a bit deeper on Transform to Outperform, we anticipate that about two-thirds of the benefits will come from productivity. About one-third will come from growth. The transformation

will strengthen Dow's long term competitive position across the economic cycle. We're already seeing progress in early wins.

For example, we've made changes at the top of the organization, including the consolidation of executive-level roles that will unify working capital ownership and also accelerate innovation commercialization.

In addition, with the help of AI and automation, we're redesigning our workflows across functions to reduce cycle times and improve connectivity across our teams. To strengthen how we partner and grow with our customers, we're upgrading our core commercial fundamentals with modern tools while keeping our customer needs at the forefront of every decision.

We're also focused on raw material sourcing and have already uncovered some areas where rising costs persist. Our teams are anticipating some upside opportunities to strategically renegotiate new price formulas in those areas.

Lastly, this quarter, we began closely evaluating our target sites to uncover additional opportunities for sustainable, leverageable productivity and growth improvements. In summary, our actions represent a cohesive roadmap and a comprehensive plan to strengthen Dow's near- and long-term resilience, competitiveness, and how we deliver for our customers.

We remain committed to maintaining operational and financial discipline, executing near-term actions for sustainable shareholder value and navigating the current environment, all to better position the company for higher shareholder returns. With that, I'm happy to take all of your questions. Jeff?

Jeff: Thanks very much, Jim. You're a very experienced chemical executive. When the conflict in Iran broke out, what did you think? What were the first steps you took in order to strengthen Dow's competitive position and to limit its vulnerabilities?

Jim: The first thoughts, if you went through the Iraqi-Kuwait conflict, some of the first thoughts were back to those times and how disruptive that was. This is probably even stronger because the Straits of Hormuz are completely shut off and just came to a standstill overnight.

That puts some real immediate pressure on operations because not just oil, but all the petrochemical plants that are in that region get shut in. Pretty quickly, if you can't move product out, you start to tank-top all the materials.

Supply chain teams swing into action, just like they did during COVID, for example, when you saw disruptive supply chains. They start working on alternatives. The commercial teams become extremely busy talking with customers because you've got customers that are in-region.

The question is going to remain whether they can continue to operate or are they going to take demand? Are they able to ship product out? What physical possibilities do you have to open up other routes? Can you truck material to another port?

Everybody's heard the story of Aramco moving oil through pipeline over to Yanbu to ship it out. Limited what you can do, but you want to do everything you can to try to keep running. Meanwhile, in the rest of the world, the industry, at the time, was operating...I'll use ethylene as an example.

Global ethylene operating rates were probably in the mid-70s. Suddenly, you take 20 percent of the global capacity, which is all low-cost, out. The price spike that happened in naphtha takes the top 5 to 10 percent of the producers out.

Not physically, but they can't get it. They bid the price up. They're underwater, and so they decide not to run. They declare force majeure. Suddenly, you go to things being very, very snug. Inventories, as I mentioned in the comments, were already low.

That was part of what caused the January price increases to go through, was inventories are tight. They're going to continue to tighten through this period. The second part of it would be how long can this go on for. That's the question everybody is trying to wrestle with.

We see all the messages that people want it to be done sooner rather than later. When you have a volatile conflict like this, you would like to see it resolved. The reality is we don't have any indications yet that lead you to believe it's going to be sooner.

We shut the straits off almost overnight. We went to zero moving through there. As you start to reopen, there are going to be the obvious questions about safety and stability to move things through and what rate are things going to open up and what's that ramp-up going to look like.

To me, based on past experience, that's not going to happen overnight. It's not going to open wide open. It's going to ramp. It's probably going to slowly ramp up. As these assets, these operating assets, get shut in, they're not all going to start up at the same rate. You've got all these

dynamics on top of each other that make a big impact.

In the markets, we're also starting to see people that are maybe not used to following the commodities markets are starting to understand the second derivative implication. We start with oil and 20 percent of the world's oil supply. Likewise, petrochemical supply comes out of that region. That oil goes to refineries all over the world.

You've started to see it manifest. The airlines have been talking about shortages in jet fuel. New refining capacity has all been built in places like China and India. That's a source point. In petrochemicals, if you go to Asia and Europe, naphtha is the feedstock.

Our big advantage in the Americas, Canada, US, Argentina, for Dow, is light cracking ethane. Globally, we're close to 85 percent light cracking. Ethane fundamentals haven't changed, but oil fundamentals have changed dramatically. That's widened the oil to gas spreads.

What is done on the high end is even more spreads on the naphtha side. Because while 20 percent of the oil comes out of the Gulf, about 40 percent of the naphtha is sourced out of...It either comes from the Gulf, or it comes from crude out of the Gulf.

When you think about it, that's an even bigger impact on those high-cost producers. That means the naphtha spread has gone up. That's probably what's going to help Europe with restoration margins, is that higher-cost naphtha, or in the case like where we've got assets in Terneuzen and Tarragona that can crack propane, the pro-nap spreads will widen. That'll be beneficial.

Lastly, I would say there's some positive even on the naphtha side of things. At the bottom of the trough, depending on the demand on the certain value chains, a naphtha cracker produces a third ethylene and two-thirds byproducts. The byproducts have not had much value for the last couple of years.

You're looking at potential spreads coming back into the byproducts, which help the overall economics. Some of that's factored into the analyst consensus on what they see happening in Europe. That's a big improvement, but it's going to have to manifest itself in higher chemicals pricing to realize that. That really is going to be dependent on the success in getting prices through in Asia.

Jeff: Naphtha values in Japan, maybe they're up $400 a ton. Polyethylene prices in Asia, maybe they're up $300 a ton. The naphtha values are much, much higher. When we talk to our

colleagues in Asia, what they say is prices are going up, but they're not going up at the rate that raw materials have gone up. So the margins are negative.

For Dow, do you get a sense of greater demand from your Asian customers? Do you think that there will be more Dow shipments to Asia over the coming quarters?

Jim: We're booked out as much as we can supply into Asia right now. I see that. To your point on naphtha -- and this is something that, on the commodity markets, everybody has to understand -- when the costs rise, they rise immediately. When you're getting the price in the market, that typically has a lag effect. Ethylene has a pretty immediate pass-through.

In the first month, it'll recover 70-plus percent of that pricing. As we go into April, for example, you will see a bigger impact in April than you'll see in March. You'll see some impact in March as well.

Where you've got a big advantage like ethane cracking like in the US Gulf Coast then, it's "What does the order book look like for the exports?" because about 30 percent of the US capacity for polyethylene is export out of the United States. That's been in the money for some time. With these spreads increasing, it's going to even be more in the money.

Those players that have that ability to export and can see that pricing move up in the global market are going to see an immediate impact of that as they move more product into those regions. We're seeing prices go up everywhere. Like you say, Asia hasn't moved up as much. Asia spot prices change on a weekly basis, a little more dynamic in those markets.

It's still a little bit more of a trader mentality in those markets than in the US where you tend to have bigger contract customers that tend to get a month notice when prices go up.

Jeff: Is Asia a better return geography now for Dow going forward in the next quarter than Europe is?

Jim: I think that remains to be seen, right? With the cracker complex improving in Europe and the fact that there hasn't been much. There's been no new capacity. There's been some rationalization of capacity. If the demand is there in Europe, you could actually see Europe come back to levels that we haven't seen for a while.

Asia, a lot will depend on demand post-Lunar New Year, but typically going into this time of the year, it's strong. As we've seen in China, that material is consumed to make finished goods that

are then exported around the world, and China has been strong on the re-export business, so I would assume that the demand will be there.

When the markets get volatile like this...In a normal predictable market, you would see traders taking positions. This market is so volatile, you see traders taking a step back because they don't want to take physical delivery of something and then be underwater next month.

They can't exactly predict where this is going to go. That dynamic has changed as well. That could lead to Asia actually seeing a bigger market improvement.

Jeff: I think Dow has said that it has 25 billion pounds of advantaged integrated ethylene in the Americas. You can begin each...

Jim: You're not going to do CEO math on me, are you? [laughs]

Jeff: No, I won't do CEO math on you, but every $10 change in a barrel of oil is $.04 or $.05 a pound historically in price change. Are there subtleties about Dow where we should be looking at something other than those 25 billion pounds of advantaged integrated ethylene pounds to see how Dow would perhaps benefit in this new environment that we're in?

Jim: Yeah. I would say propane to naphtha spread in Europe is something that we watch very closely because propane is less affected by what's going on in the Middle East. There's quite a large supply that comes out of the US and northern parts of Africa. You'll see propane availability and probably lower relative prices to naphtha.

That could give us some advantage in Terneuzen and also in Tarragona, that's incremental to what you would see happening in the overall complex in Europe.

I would say we'll feel the same pressure in Asia as everybody because our exposure there is our Thai JV through naphtha cracking, but we see an almost immediate positive impact on all the exports that we move.

Our advantaged position in Argentina, we crack ethane in Argentina. We're the largest producer there. Argentina has returned to relative stability. The Mercosur region into Brazil, from a trading standpoint, that's the advantaged source point.

We supply Latin America, Brazil out of Argentina, and we supply Mexico out of US Gulf Coast.

Those will both see the impact, the positive impact of the price increases.

Jeff: Over the past three years, Dow's growth in specialty plastics in volume terms has churned pretty flat. What about this year? If you look at your operating rates now and you look at where global demand is, how would you frame the possibilities for volume growth for Dow and specialty plastics this year?

Jim: Specialty plastics, predominantly, the things that I think are going to continue to deliver good volume are anything into the wiring cable business. You see the demand for data centers, electrical infrastructure, which is continuing to ramp up.

That pull for both high and medium voltage for telecommunications applications, it puts a direct demand on us. Those assets are running hard, and we're looking at ways that we can incrementally expand those assets.

If you look at high-pressure pipe, when you get into bimodal polyethylene for high-pressure pipe, whether that's for gas transmission or water distribution systems, that business is continuing well. When you get into especially elastomers, when it goes into compounded applications that are in good spaces, I feel OK.

Where it goes into construction, elastomers will go into things like roofing membranes and some other areas like that. With housing being slower, that slows down demand a little bit. I haven't seen a signal yet on housing globally, I could say.

Europe, China, United States, all in the same kind of position. Some modest increases in what we see in residential housing. That can sometimes drive a good demand for elastomers.

Jeff: Maybe Dow's operating rate in its ethylene derivatives globally was 80 percent. Shouldn't you go up to 90 or above 90?

Jim: Everything that we've got running is going to be flat out for the rest of the year. Already in the Americas, every asset that we had was running full out. The demand for the export's going to be strong, so any increment that was in the US Gulf is going to be there.

Canada has been running flat out for quite some time. Cracker rates, I would say on average, the Americas, our cracker rates were 90-plus percent.

Jeff: Pre-war?

Jim: Yes. That's what I mean when you see this impact on taking out the low-cost producers in the Middle East and putting a really big spike on naphtha on high-cost producers in Asia. The incentive is there for everything else in the fleet to run exceptionally hard, and the volume is there to move.

What we're trying to do is make sure that we can keep up with the customers' demand. Force majeure is the last thing that we like to do. It's not a customer-friendly move.

We have other ways to allocate volume, like we have contracts with customers and we have allocation methodology based on those contracts. We're going to try to keep up with the customers' demand to keep them satisfied and keep them moving.

Jeff: When you think about the way Dow will perform this year, obviously, as a base case, there will be a tremendous price lift. In North America, because you're running already at very high rates, the actual volume growth will be smaller.

Jim: The volume growth will be small. We had good volume growth last year. Our ethylene machine hit a new production record last year. We produced another record in a bottom of the cycle year. That's probably a lot of people wouldn't think that.

We'll continue to run the assets hard and sweat the assets and get as much increment as we can, but it's all going to be core margin improvement. It will be integrated margin off the crackers from the low ethane costs and the higher oil spread. That spread is going to improve and that's across the entire base business.

Then you'll have the integrated margin above that for the polyethylene because of the operating rates that you mentioned that will improve as well. For our base plan going into this year, we had a billion dollars of improvement in EBITDA, which was based on self-help actions like the ones that I mentioned. That is there.

We're seeing that come through. We can see that on a monthly basis in the costs coming through. On top of that, then you'll see these margin improvements. People are starting to get their head around it.

Internally, our near term objectives are to get ourselves to a billion dollars a quarter of EBITDA,

and then the next cab off the ranks would be a billion and a half dollars a quarter would be mid cycle earnings from trough earnings. We have line of sight to get to that kind of a run rate this year.

Then obviously, the other thing that people ask questions about is on cash flows. Our view is that as we get the five billion dollars of EBITDA generation, applying a conservative 50 percent move of that to cash flows and keeping our CapEx where it is today at the two and a half billion dollars should get us to a free cash flow breakeven standpoint.

That's what the team and the management team is doing on a daily, weekly, monthly basis is to drive to those objectives. The current supply constraints are going to help us get there hopefully a little bit sooner.

Jeff: What's happening at Sadara, in that is Sadara continuing to produce at high rates, its production is locked in? Can you talk about the situation there?

Jim: Sadara, like anybody that's located on the Arabian Gulf, is slowing down rates because we're filling up inventory, so we essentially have to get down. It's somewhere in the ballpark of being almost down because we can't move anything out. It'll be that way until we see the straits open up and we start to see product flowing again.

The first indication that things are resolving will be the flow of oil tankers and then the flow of marine pack cargo and other shipments out of the straits. Then the rate of that will determine what the ramp up rate will look like on Sadara.

Jeff: Sadara has various financial issues, and Dow has various financial responsibilities toward Sadara. Do you have an idea of how those responsibilities might play out in both 2026 and in 2027?

Jim: We've been working very constructively with Aramco on dealing with the broader financial structural issues. I would say, from a cash flow operating margin standpoint, Sadara is a low cash cost asset. When you get into the fixed cost, which it brings in the financing on top of it, that's where you have some challenges. We've been working with Aramco through that.

Our goal for the year for ourselves is to not have to put any cash into Sadara. Then Sadara has modest debt repayments, which they've been funding on their own this year.

With the reduced rates, we'll have to watch the debt refunding and what does that cause Sadara to have to do to make those payments. So far they've been able to manage through it, and a lot will depend on how quickly things reopen in the Middle East.

Jeff: In your 10K, it's potentially Dow is responsible for a billion three dollars in Sadara liabilities. Is that a possibility of cash out the door for Dow, or it's something that Dow guarantees? How does that exactly work, Jim?

Jim: There's a tranche of lending that goes into Sadara, and both Dow and Aramco have parent guarantees on that. We're 35 percent owner and our guarantees on that are $1.2 billion.

Jeff: It wouldn't be cash out for Dow.

Jim: No.

Jeff: It's a responsibility that you would have in the event that...

Jim: It's a liability on our balance sheet. Sadara has not breached any covenants with its lenders. It's been able to continue to meet its covenants. That's the framework that we're working under with Aramco is to continue operations, but also to resolve the longer-term issues.

We're making good progress. I promised in January when we had the earnings call that we'd have an update by mid-year, and I still feel comfortable that we'll have an update then.

Jeff: You have these very large cost reduction programs. Historically, Dow has had large cost reduction programs where maybe the benefits have been less tangible. Why might the benefits be more tangible this time around?

Jim: One of the questions that we get asked, and it's a legitimate question, is our costs don't all show up in the same place on the P&L. What gets highlighted a lot of times is SG&A costs, and you can see what kind of controls we have there and what kind of ability we have to keep those competitive. When you get into cost of goods sold, that's part of the whole margin calculation.

If you look at last year, our EBITDA performance last year was down two billion dollars. Pricing was down three billion dollars. Everybody says, where's the billion dollars of cost savings? It's in there. If you didn't have it, the EBITDA would have been down even more. It's hard savings when we go through it.

Our financial people and our auditors can track it and trace it back. It's a lot in cost of goods sold in manufacturing. I talked a little bit about raw material purchasing, maintenance and MRO.

Although we're still do a billion dollars a year of maintenance, but we also have made asset decisions. We shut down 23 small satellite sites and businesses, like polyurethanes and others, brought some of that demand back to larger integrated sites.

That removes a lot of cost and CapEx that can be deployed against other value-creating assets and keep the franchise whole. We continue to make moves like that. The billion that I talked about going into this year, last year, we saw 430 million of the billion hit the bottom line.

That was largely people reductions, but you have ongoing costs that take a while to get out, like supply-chain costs and other things that will come through. Working capital tends to need a quarter or two to start to see momentum on working capital. That takes a while to come out. That's what will be coming in this year, that other 500 million.

Then, as Transform starts to ramp up, you'll see 500 million of that at the end of this year, and you'll start to see bigger impacts in 2027.

Jeff: Jim, I very much look forward to seeing those cost reductions come through. Thank you very much.

Jim: You will. Thank you very much. Appreciate the time.

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