

# Dow Inc. NYSE:DOW

## FQ3 2024 Earnings Call Transcripts

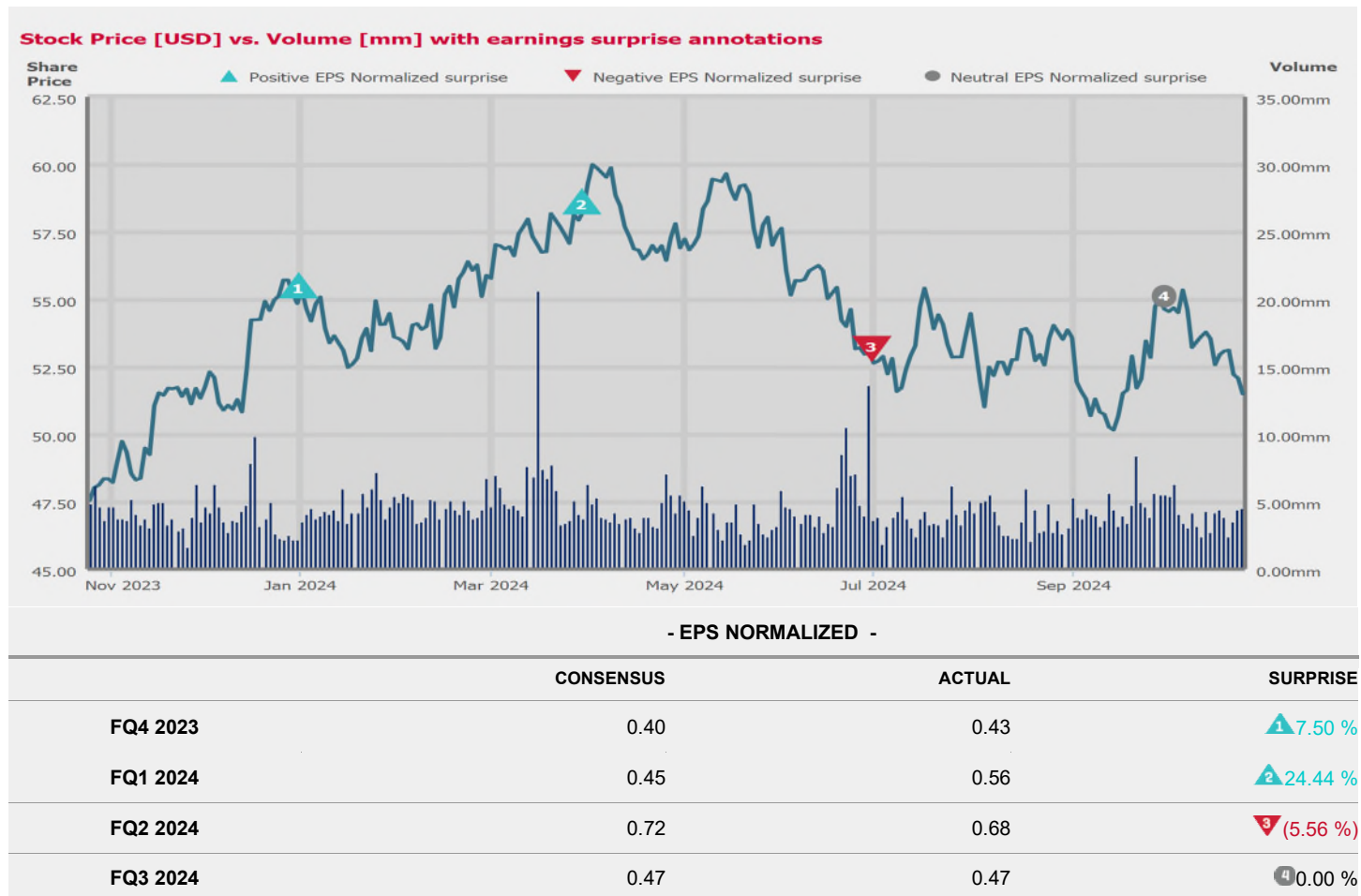
Thursday, October 24, 2024 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2024-			-FQ4 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.47	0.47	0.00	0.38	2.14	3.54
Revenue (mm)	10678.95	10879.00	1.87	10812.15	43298.89	45379.74

Currency: USD

Consensus as of Oct-24-2024 12:36 PM GMT



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# Call Participants

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# Presentation

## Operator

Greetings, and welcome to the Dow Third Quarter 2024 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

I will now turn it over to Dow Investor Relations Vice President, Andrew Riker, Mr. Riker, you may now begin.

## Andrew Riker

*Vice President, 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; 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 and slides that are posted on our website.

On Slide 2 is our agenda for today's call. Jim will review our third quarter results, operating segment performance and some key updates regarding the strategic asset review we announced today. Jeff will then share an update on the macroeconomic environment and provide fourth quarter modeling guidance, followed by a discussion on our financial position and progress on Dow's growth investments. Jim will close the call. And following that, we will take your questions.

Now let me turn the call over to Jim.

## James R. Fitterling

*Chair & CEO*

Thank you, Andrew. Beginning on Slide 3. Our cost advantaged footprint in the Americas continues to provide strong competitive edge, capturing demand growth in attractive markets and regions.

In the third quarter, Team Dow delivered our fourth consecutive quarter of year-over-year volume growth. We delivered this despite a soft macroeconomic environment, primarily in Europe and China, as well as an unplanned cracker outage in Texas, which has been successfully restarted and is running well.

Net sales in the third quarter were \$10.9 billion. This is up 1% versus the year ago period, led by higher demand and local prices in the United States and Canada. Volume increased 1% versus the year-ago period and prior periods. Sequentially, we saw gains in Packaging & Specialty Plastics and Industrial Intermediates & Infrastructure.

Local price was flat year-over-year as gains in Packaging & Specialty Plastics were offset by decreases in Performance Materials & Coatings. Sequentially, local price was down 1% due to minor declines across all segments.

Operating EBIT was \$641 million, up \$15 million year-over-year, reflecting higher integrated margins in Packaging & Specialty Plastics, which were partly offset by the impact of the unplanned cracker outage in Texas and higher planned maintenance activity.

Cash flow from continuing operations was \$800 million, down year-over-year, primarily due to higher inventories to support both sales growth and labor-related supply chain disruptions.

Shareholder remuneration for the quarter was \$584 million, including dividends and share repurchases.

In addition, we progressed our long-term growth strategy, including signing a long-term agreement with Linde for the supply of clean hydrogen for our Path2Zero project in Fort Saskatchewan. We also completed the acquisition of U.S.-based polyethylene recycler Circulus. This will add capacity of 50,000 metric tons of recycled materials annually to Dow's portfolio.

Now turning to our operating segment performance on Slide 4. In the Packaging & Specialty Plastics segment, local price increased year-over-year led by higher polyethylene prices in all regions except Latin America, which was flat. Volume was flat year-over-year as higher demand for functional polymers in all regions was offset by lower polyethylene volumes.

Operating EBIT was \$618 million, an increase of \$142 million year-over-year. This was primarily driven by higher integrated margins, which were partly offset by the impact of the unplanned cracker outage I mentioned earlier.

Moving to the Industrial Intermediates & Infrastructure segment. Local price was flat year-over-year. In addition, volume was down 2%. This was driven by lower volumes in Polyurethanes and Construction Chemicals, which were primarily due to a force majeure in MDI, following a third-party supplier outage.

Operating EBIT decreased \$74 million versus the year ago period. Results were driven by higher planned maintenance activity and lower integrated margins, which were partly offset by improved equity earnings.

And in the Performance Materials & Coatings segment, local price declined year-over-year, while volume was up 5% with gains in both businesses and across all geographic regions. Operating EBIT was \$140 million, down \$39 million compared to the year-ago period, driven by higher raw material costs, which were partly offset by higher volumes.

Moving to Slide 5. The strength of Dow's differentiated portfolio is defined by our strategic and purpose-built asset footprint, which leverages low-cost feedstock positions, primarily in the Americas. Our growth investments are concentrated in higher-value businesses and regions, particularly where demand is resilient, and we have a competitive cost advantage.

Over the past few years, we've demonstrated our commitment to operating with a best-owner mindset by taking proactive actions with select higher-cost assets aligned with the evolving market dynamics.

Since 2023, we have undertaken more than 20 asset actions. These include targeted rationalization of our global polyols capacity, shutting down our propylene oxide unit in Freeport, Texas in 2025 to reduce lower-value merchant PO exposure, strengthening our coatings footprint with select asset closures, and announcing the sale of our Laminating Adhesives business for \$150 million, including two manufacturing sites in Italy, which we expect to finalize in the fourth

quarter of this year.

Overall, these actions have been primarily focused on our Industrial Intermediates & Infrastructure segment and in the EMEAI region.

On Slide 6, current market dynamics are impacting Europe, including continued soft demand, coupled with the persistent lack of long-term regulatory policies. This ongoing absence of clear, consistent and competitive regulatory policy in Europe has resulted in many challenges for our industry. These challenges have been acknowledged in statements by EU government leaders, top economists, and our peers. And while the demand recovery in other parts of the world is expected to provide swift upside across the markets we serve, this alone is unlikely to be enough in Europe.

Given these dynamics, we've begun a strategic review of select European assets, primarily those in our Polyurethanes business. This review includes all value-creating options for these assets, and currently consists of approximately 20% of our sales in the EMEAI region. We expect to complete this review by mid-2025.

We continue to engage with governments, both directly as well as through our leadership and trade associations, to improve the industry's overall competitiveness in the region. Decisions regarding the strategic review, similar to our prior actions, will focus on strengthening Dow's global portfolio. This enables us to invest in the most attractive opportunities and create long-term value growth for our shareholders.

Now I'll turn it over to Jeff to review our outlook and guidance.

**Jeffrey L. Tate**  
*Chief Financial Officer*

Thank you, Jim, and good morning to everyone joining our call today.

Moving to Slide 7. We continue to experience muted demand across some end-markets and regions, with the greatest pressure in Europe and China. Global manufacturing PMI has been decelerating over the past three months, and consumer spending remains pressured by persistent inflation. That said, we're monitoring the impact of rate cuts in the U.S. and Europe as well as recent stimulus plans in China to boost economic activity, which could provide some positive momentum for 2025.

Looking specifically across our four market verticals. In Packaging, domestic demand in North America is resilient and exports are robust despite decelerating last month. Demand in Europe remained soft, consistent with manufacturing PMI at the lowest point year-to-date. In addition, China's manufacturing PMI returned to contractionary levels in September after improving in August.

Infrastructure demand, primarily in residential construction, remains low. In the U.S., housing starts decelerated to negative 0.7% year-over-year in September. Eurozone construction PMI remained soft, and new home prices in China declined year-over-year for the 15th consecutive month.

Consumer spending has slowed across the globe, reflecting affordability challenges. We've seen consumer confidence weakened in the United States remain negative in Europe and declined in China for the fifth consecutive month.

And in mobility, demand has softened globally. In the U.S., auto sales were slightly up year-over-year in September after decreasing in August. And in the EU, new car registrations declined in September after reaching a three-year low in August. China auto production declined for the fourth consecutive month, reflecting weak domestic demand as well as exports due to tariffs imposed in Europe.

Now turning to our outlook on Slide 8. We expect fourth quarter earnings to be approximately \$1.3 billion, up year-over-year and lower quarter-over-quarter as normal seasonality plays out.

Now looking into the sequential drivers by segment. In the Packaging & Specialty Plastics segment, lower integrated margins stemming from higher feedstock costs and lower licensing revenue will be a headwind.

Following an unplanned event in July, we restarted our Texas-8 cracker at the end of the third quarter, and we expect to ramp operating rates steadily throughout fourth quarter. This will generate an add-back of approximately \$100 million in the fourth quarter. We also expect lower planned maintenance activity across multiple sites along the U.S. Gulf Coast and in Europe to provide a tailwind sequentially.

In the Industrial Intermediates & Infrastructure segment, market conditions remain mixed. Demand in building and construction end-markets will be seasonally lower, but we expect the ongoing ramp of our plant at Louisiana Operations as well as the seasonal uptick in demand for deicing fluid to offset this decline. In addition, we anticipate a \$50 million tailwind due to lower planned maintenance activity along the U.S. Gulf Coast.

In the Performance Materials & Coatings segment, we see continued growth in downstream silicone applications across most end markets. However, this is expected to be offset by ongoing weakness in the China property sector. In addition, lower seasonal demand for building and construction end-markets is expected to be a headwind of approximately \$125 million.

Moving to Slide 9. Team Dow has built a very compelling investment opportunity, even as our industry has faced volatile market conditions over the past few years. By continuing to execute our playbook, deliver on our financial priorities, and advance our strategy, we are positioning Dow for long-term value growth. Importantly, we have built the financial flexibility to continue disciplined investment in areas that will raise our underlying earnings, reduce emissions and advance customer circularity needs to drive growth.

As it relates to our financial strength, Dow has ample liquidity and a strong investment-grade credit profile. Nearly all of our long-term debt is at a fixed rate, and we have no substantive maturity until 2027. We also expect to enhance our near-term cash flow generation through the execution of unique-to-Dow cash flow levers.

And we are making solid progress on the evaluation of strategic options for our non-product producing infrastructure assets. As previously mentioned, we anticipate generating over \$1 billion in proceeds from the transaction, and we expect to see further progress yet this year.

Dow's strong financial flexibility allows us to advance our long-term growth strategy. Notably, in the third quarter, the team is making good progress on the construction of our Path2Zero project in Fort Saskatchewan. Major foundation work began, and approximately 40% of cracker pilings are complete. Aligned to our capital deployment schedule for the project, we expect to receive more than \$1.5 billion in cash and tax incentives, with more than 80% received by 2030.

Our near-term growth projects remain on track to deliver more than \$2 billion of underlying EBITDA. This includes capacity expansions in silicones this year that would deliver approximately \$70 million of annual EBITDA at full run rates. And our Transform the Waste strategy is expected to deliver more than \$500 million of EBITDA by 2030.

In the third quarter, we added new products to our growing circular portfolio. This includes REVOLoop recycled plastic resins that incorporate post-consumer recycled material and to cable jacketing. We also introduced the first bio circular ENGAGE REN polyolefin elastomers for carpet tile backing.

And with that, I will turn the call back over to Jim.

**James R. Fitterling**  
*Chair & CEO*

Closing on Slide 10. Despite persistent softness across many end markets and regions, Dow continues to leverage our advantaged cost positions to capture areas of demand strength, operating with discipline, and investing for long-term profitable growth.

Building on the more than 20 asset-related actions we've taken since 2023, today's announcement that we're undertaking a strategic review of select European assets is consistent with our best-owner mindset and focused on long-term shareholder value creation. In addition, we're actively progressing unique-to-Dow cash flow levers, and expect to share more by the end of the year.

Our solid financial foundation allows us to advance our long-term strategy, which is poised to deliver more than \$3 billion in additional annual earnings growth by 2030. Dow is in a strong position to boost our core earnings as market conditions improve and we begin capturing the full benefits from our growth investments, thereby enabling greater returns to shareholders.

With that, I'll turn it back to Andrew to get us started with the Q&A.



# Question and Answer

**Andrew Riker**

*Vice President, 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.

**Operator**

[Operator Instructions] Your first question comes from Vincent Andrews from Morgan Stanley.

**Vincent Stephen Andrews**

*Morgan Stanley, Research Division*

Wondering if I could just ask about the outlook for Packaging & Specialty Plastics in terms of pricing. If I'm reading the guidance correctly, it looks like on a net basis, pricing should be flat for the fourth quarter? Is that correct? And is there sort of the cadence of pricing you're expecting maybe up in October and then give a little bit back traditional in November and December? How are you thinking about it?

**James R. Fitterling**

*Chair & CEO*

Vince, yes, I think you're reading it overall correctly. We've got an outlook for flat pricing for the quarter, where you've got some obvious expectations that we might see some higher feedstock costs, but still very competitive feedstocks here in the U.S. Gulf Coast.

I would think we've got moves out there announced for \$0.03 in October and \$0.03 in November. And I think our view is typically, that's when we tend to see the move in pricing up, and then things soften towards the end of the year.

**Operator**

Your next question comes from Hassan Ahmed from Alembic Global.

**Hassan Ijaz Ahmed**

*Alembic Global Advisors*

Just a question around some of the sort of review work that you guys are doing in Europe. You guys specifically talked about Polyurethanes. I'm just trying to sort of get a better sense of all the moving parts with regards to how you see the polyurethane cycle sort of panning out.

Obviously, we've seen or are about to see some assets change hands within the global polyurethane market. The destocking was particularly severe in polyurethanes, but the supply side seems a bit tepid. So as sort of you sift through all of these moving parts, how do you see the polyurethane market sort of coming out on the other side?

**James R. Fitterling**  
*Chair & CEO*

Hassan, actually, we're still poised for a very good recovery in construction and durables markets, which really drive a lot of what's going on in polyurethanes. I would add automotive on top of that because I think automotive has been under some pressure in Europe. So I agree with you, there's no signs that there's any stocking; and destocking has run its course. But I think we're waiting for that obvious turn in the economy that gets people moving into those segments.

And those assets in Europe is really a portfolio shift move. It really has nothing to do with the business. Polyurethanes is a good business, with pretty diverse downstream markets. We've got good positions there. And as I mentioned, we've taken about 20 asset actions so far across the globe, mostly in II&I, which is really to tighten up the footprint and get our capacity focused on our lowest cost assets there. So, I think it's strengthened, both Polyurethane business and also the Coatings business as well.

**Operator**

Your next question comes from Michael Sison from Wells Fargo.

**Richard Garchitorena**  
*Wells Fargo Securities, LLC, Research Division*

This is Richard on for Mike. If I could just shift back to P&SP, I know it might be early, but given your comments on global integrated margins declining on a sequential basis in 4Q, how should we think about where margins and EBITDA for P&SP should be headed into 2025? What are the key puts and takes that we should look at? And how are you thinking about your global footprint and export growth rates?

**James R. Fitterling**  
*Chair & CEO*

Yes, Michael, good question -- Richard, I'm sorry. Good question. On P&SP, we -- even -- despite the issues we have at Texas-8 in the third quarter, we still see strong volume growth downstream. So we were able to pull a lot of levers to make that happen.

Demand is still good. I would say we had a little bit of a slowdown at the end of the quarter with exports because of the dock strikes that were going on at the time. But overall, downstream demand and volume has been good. So operating rates are continuing to tighten up and the cost advantage assets are running strong.

As we look forward into 2025, I think you're going to see some continued growth in volume. So we're looking at about 3% organic growth and volume going into next year. We're going to see some benefit from higher operating rates. So from a basis of about \$5.6 billion consensus for 2024, that would add maybe \$400 million to that.

We have add-back for 2 unplanned events. We've got the full year Glycol-2 being fully ramped up as well as the Texas-8 unplanned outage we had in the third quarter. So the add-back of those two is about \$300 million. And then from our growth investments, we've got about \$150 million from polyethylene and functional polymers debottlenecks, incremental growth projects there. About \$75 million from alkoxyates capacity that's coming on in the U.S. Gulf Coast and the full ramp-up of Thailand PG in Asia. And then about \$75 million from Consumer Solutions growth investments and debottlenecks. And they had a strong third quarter, with 6% year-over-year volume growth in silicones downstream specialty applications, so that's another \$300 million there. So all in all, that's about \$1 billion higher, and then you've got some upsides and downsides, depending on things that would happen within the window.

**Operator**

Your next question comes from Jeff Zekauskas from JPMorgan.

**Jeffrey John Zekauskas**

*JPMorgan Chase & Co, Research Division*

When you think about your Saskatchewan project, if you have a different production process in that you'll use the hydrogen, the autothermal reactor from Linde. So if ethane costs are the same, is the production cost in Fort Saskatchewan higher or lower than it is in Freeport? And if so, by how much?

And secondly, do you still expect to bring on, I think, 600,000 tons of polyethylene in the U.S. in the second half of 2025?

**James R. Fitterling**

*Chair & CEO*

Jeff, the answer to your second question on 2025 additional incremental growth is, yes.

In terms of Fort Saskatchewan, I would say we'll be advantaged on ethane in the Fort, and we believe our ethylene cost up in Canada will be some of the best in the world that we have. So I think it's going to be very similar.

We do have, obviously, a little higher cost from running the autothermal reformer to produce that hydrogen that will go into fire the furnaces. However, we do get some of that back through CO2 sequestration, and we are going to be able to get some of that back through the market and selling of ethylene with zero Scope 1 and 2 emissions. So net-net, I think you're going to see returns equal or higher than Texas-9 in the U.S. Gulf Coast, which is our lowest cost asset globally.

**Operator**

Your next question comes from John McNulty from BMO Capital Markets.

**Bhavesh Mahesh Lodaya**

*BMO Capital Markets Equity Research*

Jim, this is Bhavesh Lodaya for John. So it appears more and more likely that the U.S. and the world, in general, is going to see more tariffs and duties being put in place. You have a low-cost advantage in the U.S., but there are also commodities like polyethylene, where you are very reliant on export markets. In Europe, I believe this is what you alluded to when you spoke about the regulatory actions required. So overall, if we enter this new era of source of more duties across the world, how do you think that plays out for Dow overall?

**James R. Fitterling**

*Chair & CEO*

I think, look, we see tariffs today in some of the businesses that we participate in. And we are still a net exporter in general, out of the U.S. Gulf Coast because of the very strong competitive advantages that we have here. The large markets, China in particular, is still an importer and it's going to be an importer for quite some time. So I think that will exist. In most of the other markets, we're in the market to be a domestic player. So we're in Europe for Europe, and for the assets that we have in China, we're in China for China.

There's a lot of discussion going on around tariffs. I think we're typically not in the crosshairs of some of the issues that are national security related. So I think that it doesn't have a particular impact on us. And then we'll walk through what

will happen with them. I would say, carbon border adjustment mechanisms are also -- could be considered a form of a tariff as well, and so we're going to stay eyes wide open to that.

**Operator**

Your next question comes from David Begleiter from Deutsche Bank.

**David L. Begleiter**

*Deutsche Bank AG, Research Division*

Jim, on the European assets under review, are they EBITDA positive? And if so, how much? And if you do close both of your MDI plants in Europe, would you still look to supply Europe MDI from your plants in Saudi and Texas?

**James R. Fitterling**

*Chair & CEO*

Yes, I don't have a specific number to give you on the European assets right now, but they are EBITDA positive. They are good cost positions in the European market.

Again, we're looking at all value-creating opportunities. I don't believe -- I don't want to preclude anything, but I don't believe shutting down MDI assets is going to be a value-creating opportunity, but we're going to look at everything.

**Operator**

Your next question comes from Steve Byrne from Bank of America.

**Stephen V. Byrne**

*BofA Securities, Research Division*

Jeff, you made a comment about your customers for P&SP have circularity needs. Are those needs, in your view, intensifying? Or are they waning these days? And is it sufficient to give you the ability to enter into long-term contracts? Your guide for this \$3 billion EBITDA gain by 2030 is presumably pulling a chunk out of the Alberta project, but is -- what gives you that confidence to offset those costs with higher returns? Can you get longer-term contracts with your customers for low-carbon polyethylene?

**Jeffrey L. Tate**

*Chief Financial Officer*

Steve. Yes, good question. From our standpoint, we still feel very confident in our ability to be able to generate, again, overall for our Transform the Waste strategy, at least \$500 million of additional earnings by 2030. And there's no assumptions right now that we see in the marketplace that would have us that would look at that any differently.

**Operator**

Your next question comes from Chris Parkinson from Wolfe Research.

**Christopher S. Parkinson**

*Wolfe Research, LLC*

Can we just take a step back and take a look at the balance sheet and cash flow and just the year-to-date trends? Some of your commentary pertaining towards the end of the third quarter going to the fourth in terms of facilitating growth. And

just any framework in terms of the puts and takes that the Street should be considering as we progress into 2025?

**Jeffrey L. Tate**

*Chief Financial Officer*

Chris, thanks for the question. For us, when we look at third quarter, we generated \$800 million in cash flow from operations, which gave us an almost 60% conversion rate, which led to actually positive free cash flow in the quarter, which is pretty similar in terms of the range that we had for second quarter. So we've seen some stability there.

A couple of other puts and takes that I think are important is that we've been able to maintain our cash conversion cycle at 42 days, which is top quartile in comparison to our peers. And so that's an 8-day improvement that we've been able to achieve versus pre-COVID levels.

Another thing that's important here is that our cash balance at almost \$3 billion as well as the additional liquidity that we have of another \$10 billion, gives us total liquidity of \$13 billion to date, and we have no substantive debt maturities due until 2027.

And the other thing I would also remind you of, Chris, is the fact that we continue to make the commitment of unique-to-Dow cash levers and being able to deliver at least \$1 billion of those cash levels here each and every year, and we still maintain that commitment moving forward.

**Operator**

Your next question comes from Josh Spector from UBS.

**Joshua David Spector**

*UBS Investment Bank, Research Division*

I was wondering if you could talk about all the actions that you've done around some of the portfolio changes and some of the asset closures? And just talk about the earnings impact combined. I'm thinking about this more in relation where Dow talks about the earnings corridor, \$8 billion to \$9 billion in EBITDA potential. If we look at what you've done versus the last 5, 10 years of earning those assets, how much of a negative is there in that bridge that we should be building in? Or maybe it's smaller or less than what we expect?

**James R. Fitterling**

*Chair & CEO*

Josh, good question. I think you should look at it in terms of what are we doing to keep our cost position low. We've typically been able to bring all that capacity into lower-cost assets and run them at higher rates, and so you'll see that improvement in operating rate lead to bottom line improvements.

And although some of these have happened in 2023 and '24, we've had some costs associated with getting out of these assets. You'll start to see some positive impact of that as we move forward into 2025.

We're typically able to supply all of that, run the existing assets harder. Those are lower cost assets as we move forward. So I think it's more of a tightening up the footprint, making the portfolio more attractive.

If you look at where we are year-over-year, we've had an improvement in operating rates of about 500 basis points. In the third quarter, we were up about 100 basis points, and that was because we moved out some maintenance activity in the quarter. So continuing to move that operating rate up will have an impact on bottom line.

**Operator**

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

**Kevin William McCarthy**

*Vertical Research Partners, LLC*

Jim, two questions on Europe, maybe one broad one and one more narrow. Just broadly, I think it stands to reason that margins are lower in the region due to higher energy cost, anemic demand and some of the onerous regulations that you spoke to in the prepared remarks and in the press release.

So I guess my general question would be, if you were to report margins on a regional basis rather than on a segment basis, how much lower would Europe be relative to the Americas or even Asia? Number one.

And then number two, as you go through the strategic review, do you have in mind, potential financial consequence of that in terms of the EBITDA uplift or narrowing that margin gap?

**James R. Fitterling**

*Chair & CEO*

Kevin, good question on Europe. While energy costs are higher, they have come back down and moderated a bit. And so they are going to -- I think you're going to see that new kind of relative competitive floor being based on import LNG into Europe, and we're kind of at that level right now. And they've got -- they've diversified their base away from just the Russian gas that they've had before. So I think that's a positive -- relative positive. We've got a good line of sight to what the energy costs will be there. Demand has been lower. I think construction obviously has been slower. The consumer has been slower. Automotive has seen some pressure from import EVs as we know. But I think, obviously, they will have to adjust to that.

I would say when you look at the businesses, obviously, I think the biggest delta and where we are right now versus where we were, say in 2020 at the low point in the cycle, is the higher cost position of Europe. I think that's a pretty easy way to take a look at it.

These businesses, mid-cycle and Polyurethanes and Construction Chemicals, their mid-cycle EBITDA margins are about 15%. And so I think our view here is to look at portfolio options where we can invest more money in businesses that have higher returns and higher downstream growth rates.

The European assets that we're talking about with Polyurethanes make up about 20% of our existing EMEA sales.

**Operator**

Your next question comes from Patrick Cunningham from Citi.

**Patrick David Cunningham**

*Citigroup Inc., Research Division*

So just on the review of the European assets, what would you need to see from a policy perspective to maintain and run these assets? And then across -- are you positioning with governments and trade organizations regarding the sort of idiosyncratic risk related to U.S. backing the UN Global Plastics treaty, particularly the plastics production cap?

**James R. Fitterling**  
*Chair & CEO*

Patrick, good questions. First on European policy, clearly, I think there are a couple of differences. So in energy, I think, a forward focus on what Europe needs to do to be energy competitive is critical.

Also, I think a look at, and a good comparison would be Canada with Fort Saskatchewan and Europe's position on hydrogen. We call the Fort project circular hydrogen in order to run, and we're able to make ethylene from that circular hydrogen at competitive costs with U.S. Gulf Coast economics and also get a benefit from selling zero Scope 1 and 2 emissions products into the market.

The way the EU Green deal is written today, it says that you can only get credit for green hydrogen, which means made by electrolysis, made with alternative energy or low carbon energy.

If I give you a comparison on what would have to happen in Fort Saskatchewan, if I were to have to make green hydrogen to run that asset, I'd have to have seven gigawatts of electricity, running electrolyzers to make all the green hydrogen to run the Fort. It's just simply not economical, and it won't happen.

And so now you've seen there are no projects now moving forward on blue hydrogen. There are no projects moving forward for carbon capture and all these things that were on the table in terms of helping European industry decarbonize are just so far uncompetitive, that not only will the industry not decarbonized, they'll probably have to consider other alternatives.

In the United States, well, in terms of the international legally binding agreement on plastics, I think we're making tremendous progress. There is certainly no alignment around the world on production caps or bans in that agreement.

We think we're all surprised by the shift in positioning of the administration, but we're not at the end of this process yet. And so we continue to advocate that we focus on the issue, which is plastic pollution, focus on the solutions, which are circularity policies, recycled content mandates, extended producer responsibility schemes, all forms of recycling and dealing with the pollution part of the situation.

Plastics are the lowest carbon footprint products that are out there. They're easiest to use, they're the cheapest to use. They have the best sustainability footprint. And as we convert to making them with zero Scope 1 and 2 emissions like we're going to do at the Fort, nothing -- no alternative will be able to touch the sustainability footprint.

**Operator**

Your next question comes from Frank Mitsch from Fermium Research.

**Frank Joseph Mitsch**  
*Fermium Research, LLC*

Jim, I appreciate your answer to the question on tariffs earlier in the Q&A with the U.S. Gulf Coast competitive advantage. I'm curious, Brazil just enacted an increase from 12.5% to 20% on polyethylene imports. What specifically may be seeing in that region? And perhaps if you could also offer an early look at 2025 in terms of siloxanes, the interplay between supply and demand, that would be helpful.

**James R. Fitterling**  
*Chair & CEO*

Frank, good questions. Sorry about the Mets. I'm with you there with the Royals not making it as well.

12.5% to 20% I think, in the case of Brazil, I think you have to look at tariffs in terms of are you trying to protect the manufacturing in the domestic economy so that you keep a manufacturing base. And I think tariffs of 12.5% to 20%, like you see in Brazil, are meant to do that.

I think when you've heard reference to tariffs here in the United States of maybe a base tariff of 10% for anything that's imported, yes. I think that's driven by a mindset that we're trying to get manufacturing into the United States, not reshore it to a neighboring country, but into the United States.

And so we see tariffs around the world for countries that are trying to protect local manufacturing and trying not to be completely at the mercy of import materials for all of the needs for their economy. I think we're going to continue to see a lot of focus on that and actions like that.

On siloxanes, we saw a little bit of tightening and a little bit of pricing improvement. I think we're a ways away. I think we're still in the area where there's opportunity for some rationalization. We've got Chinese capacity that's in negative cash margins right now.

The downstream is growing well. As I mentioned, we were up 6% year-over-year in the downstream. The continued outlook for the downstream market is good, even though automotive has been slow, like vehicle production this year is going to be projected to be about 2% lower year-over-year. The growth in electric vehicles has been strong, like 13%, 14%. And when you look at that, that drives a lot of silicones demand. And when we start to see construction come back, that's a high-volume use, and I think you're going to see that pull on it as well.

So I think it's a combination of those big volume markets come back as well as some assets that are in the cash-negative territory having to be taken down.

**Operator**

Your next question comes from John Roberts of Mizuho.

**John Ezekiel E. Roberts**  
*Mizuho Financial Group, Inc.*

Jim, you've got chlorine integration in Europe. So how separable are the decisions you're looking at in Europe for Polyurethanes versus the CAV assets?

**James R. Fitterling**  
*Chair & CEO*

They're not, John. Obviously, we're not going to do anything without close contact with our own chlorine assets but also with our partners in Europe. And so we'll keep a close eye on that. Chlorine PO integration is critical for us, and so we'll make sure we're eyes wide open to that.

**Operator**

Your next question comes from Mike Leithead of Barclays.



**Michael James Leithead**

*Barclays Bank PLC, Research Division*

Question maybe for Jeff around 2025. It seems like Jim earlier talked about \$1 billion of year-over-year improvement in EBITDA so call it around \$6.6 billion. I know you don't have a firm budget for next year yet, but it seems like you'll probably have another year of at least \$6 billion or so of budget cash outflows in 2025. Between \$3 billion CapEx, \$2 billion dividend, interest, taxes and the like. So are there further unique-to-Dow cash items you'd expect next year? Or should we expect net debt to remain relatively flat? Just how should we think about net cash flow next year, and sort of how does this impact the pacing of your buyback activity from here?

**Jeffrey L. Tate**

*Chief Financial Officer*

Mike, thanks for the question. Short answer on the unique-to-Dow cash levers is, yes. We would expect to have a similar type of proceed coming back from some of the activities that we're focused on. Some of those that we've mentioned in the past that we're still working on, besides the non-product producing infrastructure assets, would be looking at our Nova judgment and continuing to make progress on that as well as looking at some of our joint venture restructuring activities that could also give us some cash opportunities.

And so with those unique-to-Dow cash levers, plus expecting our cash conversion rates to be similar or higher versus what we had this year, coming off of whatever our 2025 ultimate EBITDA plan is, will give us the opportunity to be able to support our cash uses for 2025.

**Operator**

Patrick Fischer from Goldman Sachs.

**Patrick Duffy Fischer**

*Goldman Sachs Group, Inc., Research Division*

Just a couple of questions around the licensing income. So one, how much bigger was it than you expected when you gave guidance after Q2? And then two, was it an unexpected project that came in? Or is it just pulling forward either from the Q4 or next year's cycle?

**James R. Fitterling**

*Chair & CEO*

Duffy, it's just timing on -- those are driven by delivery of engineering packages and timing on milestones. I'd say it's relatively small in terms of the beat on P&SP. A big chunk as well was moving in St. Charles cracker turnaround out.

As you remember, we were coming off of hurricane -- that turnaround was due to start around the time we were having all the hurricane activity. So we just decided to move it into first quarter just so we could deal with hurricane-related issues and not have to focus on that while we were trying to make the quarter. But I think it was relatively small in the grand scheme of things.

**Operator**

Your next question comes from Matthew Blair from TPH.

**Matthew Robert Lovseth Blair**

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

You mentioned you're expecting higher cracking feedstocks in the fourth quarter. I was hoping you could expand a little bit on what you're seeing in the U.S. ethane market. Do you think that the wider frac spreads that we're seeing so far this quarter are temporary or perhaps structural? And then would Dow expect to enjoy a little bit of an offset here the Devon JV? And is there any appetite to expand that JV with Devon?

**James R. Fitterling**

*Chair & CEO*

Good questions. And I would say as we look forward, the winter strip on ethane is very similar to where the summer was. Our range on ethane probably for the quarter is in \$0.19 to \$0.23 range. The frac spreads have been consistently at \$0.50 or below. So I think we're probably going to see that continue.

Natural gas has obviously been very positive for this as we've had good production, and the hurricanes in the third quarter took some export capability out. I think we're going to see some of that export capability come back in, which is why I think you're going to see some competition for that gas that we didn't see in the third quarter. All that, I think, is around the edges. I think we still got very, very cost advantaged positions.

And then what was the second?

**Andrew Riker**

*Vice President, Investor Relations*

Devon.

**James R. Fitterling**

*Chairman Chair & CEO*

On Devon. Yes, look, we've been very happy with the partnership with Devon. We started that back in 2021 and continue to ramp that up in 2023.

Right now, we've done 114 wells with them, and we've got 15 additional ones expected to come online this year. It continues to grow to help us offset our exposures.

Obviously, the way we work that deal is we trade that into the market with a net offset to our cost coming in. And we continue to be very happy with it. It's worked well for both of us. It's a strong partnership, and I think we're looking forward to continuing it.

**Operator**

Your next question comes from Aleksey Yefremov from KeyBanc Capital Markets.

**Aleksey V. Yefremov**

*KeyBanc Capital Markets Inc., Research Division*

Jim, I was quite surprised to see about \$100 million in EBITDA for II&I into this quarter. The segment started the year pretty strongly with 234 and then EBITDA continued to soften. Could you give us, just to reflect on this year, what product specifically or regions maybe did not perform as well? And what do you expect next year here?

**James R. Fitterling**

*Chair & CEO*

Yes. So obviously, we had Glycol-2 up and running, so that was to a positive. We had price pressure on PO Polyols and we had lower volumes in MDI. I mentioned in the opening that we had a third-party outage in North America, which supplied industrial gas to our MDI process there, the plants back up, but still running at lower rates.

And then look, the other thing that happened when Texas-8 was out, Texas-8 produces propylene for us as well. And so when we had Texas-8 out, we had to go into the market to get some of that propylene so that was a higher cost.

So I think it was on to one time, the MDI issue is a onetime, which will correct itself. The PO polyols, that was a big driving force around the decision to tighten up the footprint in Freeport. So as we go forward, we don't have as much length in PO, which brings the North American market more in balance. So I think as we move forward, it's Polyurethanes in North America, that was the bigger slowdown and drag in the quarter.

**Operator**

Your next question comes from Laurence Alexander from Jefferies.

**Laurence Alexander**

*Jefferies LLC, Research Division*

Just on the unique-to-Dow cash levers, can you give a sense for what the longer-term pipeline looks like say through 2030 or even farther out? After the ones that you've publicly disclosed, I mean, how bare is the cupboard?

**Jeffrey L. Tate**

*Chief Financial Officer*

Laurence, this is Jeff. Going out to 2030, we wouldn't be able to get too definitive at this stage. I mean, as we continuously go through our annual reviews of all of our assets and all of our opportunities, we'll continue to identify those things that could create more value across the enterprise and have a best-owner mindset as we approach it.

But the ones that I've noted in the earlier question around some of the things that are more near term, are the ones that we've specifically identified that will bring us more of that near-term impact. But going out to 2030, I couldn't give you anything specific at this point, but we'll continue to, again, maintain that commitment of well over \$1 billion on an annual basis.

**Operator**

Your next question comes from Arun Viswanathan from RBC Capital Markets.

**Arun Shankar Viswanathan**

*RBC Capital Markets, Research Division*

So I guess I just wanted to ask about -- there's been a lot of portfolio reviews, especially of European assets at this point. So just wondering if you've gone through some kind of analysis here, assuming any of those shutdowns happen or potentially portfolio reviews result in shutdowns. How much maybe capacity could be coming out of the industry and P&SP in -- as you look into '25.

And maybe if you can give us your thoughts as well on PM&C kind of global supply demand as well, just because we've been mired in weakness on the coating side for a while, from a demand standpoint, but maybe there's some green shoots with rates coming down. So do you see any improvement in operating rates on the PM&C side as well. So just maybe you could get your comments on both P&SP and PM&C utilization as you look into '25?

**James R. Fitterling**

*Chair & CEO*

Yes. Arun, look, I think, again, our portfolio work in Europe is around Polyurethanes. And as I mentioned before, it really isn't driven primarily by shutdowns, we'll look at that. But I think we've done a lot to bring smaller assets down and bring that capacity into our low-cost locations.

It's really looking at what is there a better owner for the portfolio? Does that allow us to continue to focus on our invest for growth businesses, which went from Investor Day, you'll remember we're P&SP. our Silicones business, and also our Industrial Solutions business.

In P&SP in Europe, we have good positions, and we're focused on the domestic market there. So I think our focus there is continuing to make those assets more competitive. There has been about -- and I'm doing this off the top of my head, about 1.5 million metric tons of announcements made already in the industry, on shutdowns that are coming in Europe. I think we'll probably continue to see that in isolated stand-alone cases where you may be facing an older asset that has some high-cost maintenance or other life extension work that needs to happen. So that will be a challenge. I think in most of those asset cases, there was a discussion of cash flow losses for a number of years before those decisions were taken. We're not in that situation in P&SP in Europe.

I think on Coatings, even though Coatings has been slow, we've had really good volume growth this year, growing with our strategic customers, well ahead of what was expected in the marketplace. And I think that will mostly shift as we start to see things pickup in the housing sector and the architectural coatings pickup.

We had a lot of growth in traffic paint coatings this year, infrastructure-related. There's a lot of development going on in space there to make road markings that can actually communicate with the future for autonomous vehicles or the autonomous and lane assist type of devices that are put on your vehicles today are requiring some better road markings to be able to -- for them to react with the cars. So I think we'll continue to see growth in both of those, but the housing market will be the big pickup on the Coatings business. Coatings is doing well. I'd say Monomers is where things need to tighten up a little.

**Operator**

This concludes our question-and-answer session. I'd now like to hand back over to Andrew Riker for closing remarks.

**Andrew Riker**

*Vice President, Investor Relations*

Thank you, everyone, for joining our call, and we appreciate your interest in Dow. For your reference, a copy of our transcript will be posted on Dow's website within 48 hours. This concludes our call. Thank you again.

**Operator**

Thank you for attending today's call. You may now disconnect. Have a wonderful day.

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