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Dow Inc. NYSE:DOW

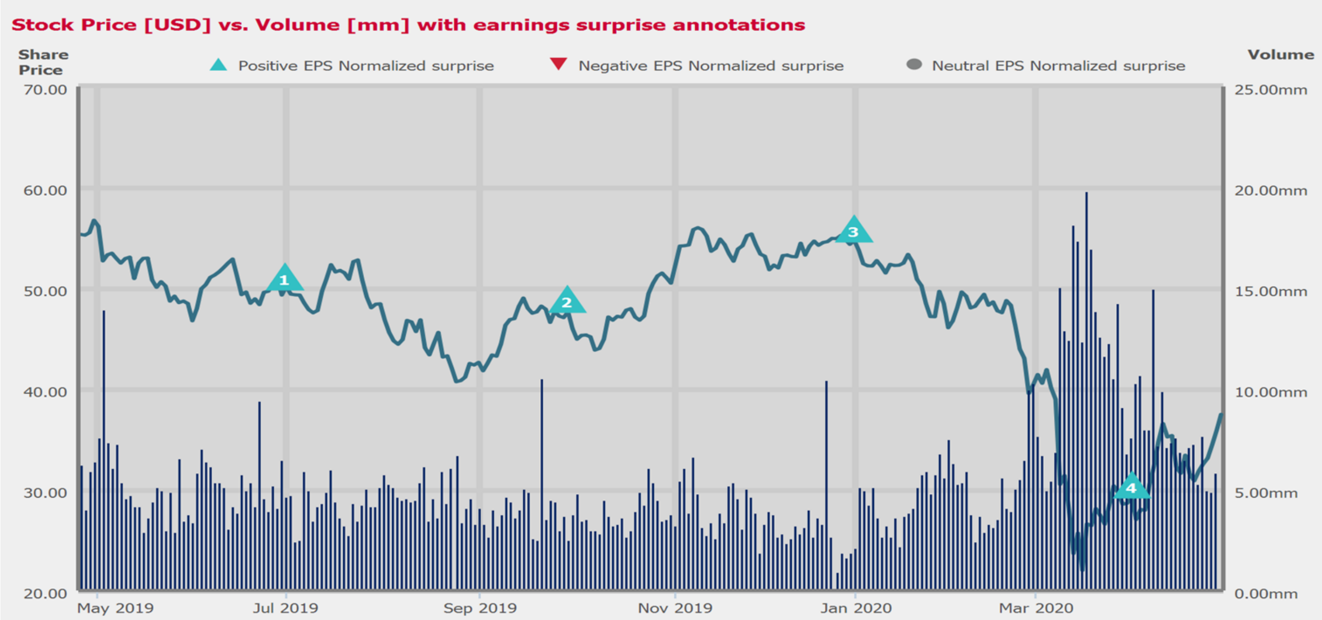
FQ1 2020 Earnings Call Transcripts

Thursday, April 30, 2020 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.58	0.59	▲1.72	0.36	1.88	2.67
Revenue (mm)	9679.41	9770.00	▲0.94	8926.60	37346.32	40071.76

Currency: USD
Consensus as of Apr-30-2020 12:57 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	0.84	0.86	▲1 2.38 %
FQ3 2019	0.72	0.91	▲2 26.39 %
FQ4 2019	0.72	0.78	▲3 8.33 %
FQ1 2020	0.58	0.59	▲4 1.72 %

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Presentation

Operator

Good day, and welcome to Dow First Quarter 2020 Earnings Call. [Operator Instructions] Also, today's call is being recorded.

I would now like to turn the call over to Colleen Kay. Please go ahead, ma'am.

Colleen Kay
Vice President of Investor Relations

Good morning, everyone. Thank you for joining us to discuss the first quarter financial results for Dow. 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.

I'm Colleen Kay, Investor Relations Vice President for Dow. And joining me on the call today are Jim Fitterling, Dow's Chairman and 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 Forms 10-Q and 10-K include detailed discussion of principal risks and uncertainties which may cause such differences.

Unless otherwise specified, first quarter 2019 historical financial measures presented today are on a pro forma basis, 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 is contained in the Dow earnings release, in the slides that supplement our comments today and on the Dow website.

On Slide 2, you'll see our agenda for the call. Jim will begin with the first quarter highlights, share details on Dow's response to COVID-19 and discuss the operating performance of the segments. Howard will provide an update on Sadara, then move into a financial overview of the quarter and provide our modeling guidance. And finally, Jim will close with some remarks on key factors that differentiate Dow. Following that, we will take your questions.

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

James R. Fitterling
CEO & Chairman

Thank you, Colleen, and thanks to everyone for joining us this morning. Before we begin, I'd like to first recognize Neal Sheorey for the tremendous role he's played in our Investor Relations team over the past 4 years. We're glad to have him leading our Coatings & Performance Monomers business. And also, a very warm welcome to Colleen Kay, who succeeded Neal as our new Investor Relations Vice President this quarter.

Starting on Slide 3, I'll begin with some notable highlights from the first quarter. We delivered net sales in line with our adjusted guidance as we met strong demand in our consumer staple, nondurable applications such as food, health and hygiene, packaging and surfactants and solvents for cleaning products. Our volume, excluding Hydrocarbons & Energy, declined 1%, reflecting the impact of reduced economic activity in China with the onset of the COVID-19 pandemic and containment interventions. Our volume in China was down 25% sequentially as seasonal decline due to the Chinese New Year was intensified by the sudden demand reduction due to the virus.

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Cash flow was again a noteworthy headline. We generated a solid $1.2 billion in cash from continuing operations, a 79% conversion of operating EBITDA to cash from operation, and our free cash flow increased by $240 million year-over-year. This was underpinned by 3 actions: one, our quick response to shifting trends in global energy prices and regional demand, which enabled us to liberate cash from working capital; two, tight capital and expense controls, including more than $30 million in stranded cost savings; and three, a nonoperational cash inflow as we recovered a $259 million tax withholding from the Canadian tax authorities related to the 2019 judgment against Nova. We ended the quarter with approximately $12 billion of cash and available liquidity, and we took further actions to reinforce our financial strength and flexibility.

Early in the quarter, we opportunistically executed a EUR 2.25 billion euro-denominated debt issuance, achieving a weighted average coupon of about 1%. We immediately used the proceeds to repay debt, extend our debt maturity profile and reduce our financing costs. As a result, today, we have no major long-term debt due until the second half of 2023. And finally, we did all of this while also prioritizing returns to our shareholders. We returned nearly $650 million to owners through our industry-leading dividend as well as opportunistic share repurchases.

The quarter presented us with unprecedented headwind, and we responded by flexing our operational and financial capabilities to protect our employees and facilities, meet customer demand and fortify our financial position. This brings me to our COVID-19 pandemic response on Slide 4.

I'm incredibly proud of the determination and resilience shown by the Dow team. To the many heroes on the front lines helping to ensure the health and well-being of our communities around the world, thank you. These are unique and trying times for every one of us. And it has been inspiring to see the global community rally together to help solve this challenge. The Dow team has our share of heroes as well, particularly those employees on the front line who have kept our operations running, staying close to our customers and adapting with their needs and making sure that our essential products needed around the world are still flowing from Dow plants to our customer's gate. In these challenging times, Dow people are at their very best and most resourceful.

Turning to Slide 5. Safety is always our first priority at Dow. And protecting the health and safety of our employees and communities is the first thing we did. We rapidly deployed our crisis management framework and activated site-by-site plans to maintain business continuity and secure safe, reliable operations. Today, 2/3 of our workforce is working from home, and Dow sites continue to operate with reinforced health, safety and security protocols. In fact, close to 100% of our sites are operational. In addition, our business and government affairs teams are working with federal, state and local officials and agencies to share best practices and help unlock solutions to enable the continued flow of critical goods and products as well as recommendations for how to get the economy reopened safely.

Moving to Slide 6. As an industry considered essential to global infrastructure, the chemical industry and Dow have a critical role to play. We've remained agile by modifying our manufacturing processes and product wheels to meet increased demand for raw materials used to produce disinfectants, PPE, food ingredients and packaging. We've adapted 5 Dow sites around the world to produce hand sanitizer for donations to local hospitals and other health care organizations.

And just recently, we developed a simplified face shield design to help protect health care professionals on the front line. We collaborated internally to produce and donate 100,000 face shields to Michigan hospitals, and we also made the innovative design openly available to fabricators around the world in order to help accelerate production rates of critically needed PPE globally. These are just a few examples of how Dow is utilizing our materials science expertise to combat COVID-19, which is spurring new innovation ideas for the future.

Moving to Slide 7. We understand the extreme stress that these unprecedented times placed on our communities and people, so we've committed $3 million to COVID-19 relief efforts for immediate support and to build community resilience in the recovery phase. The outpouring of support from our workforce has been inspiring. And we're giving them creative ways to provide their time and expertise above and beyond the things that they're already doing to help Dow and our customers.

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I'll close my comments on the first quarter with a quick review of our segment results on Slide 8. Packaging & Specialty Plastics operating EBIT was $580 million, down from the year-ago period. The benefits of consumer-led packaging demand growth and additional stranded cost savings were more than offset by lower polyethylene and global energy prices as well as reduced equity earnings. The Packaging & Specialty Plastics business delivered a 1% volume growth, supported by strong end-market demand, particularly in health and hygiene, rigid packaging and flexible food and specialty packaging applications. The business delivered volume gains in Asia Pacific versus the year-ago period despite the demand reduction in China from the onset of the COVID-19 pandemic.

Hydrocarbons & Energy reported both lower volume and price. Volume declines were primarily due to reduced ethylene sales from increased internal derivative consumption.

Industrial Intermediates & Infrastructure operating EBIT was $175 million, down from the year-ago period, as demand growth in the Industrial Solutions business was more than offset by margin compression in polyurethane applications as well as equity losses. The segment also benefited from lower year-over-year planned maintenance turnaround costs.

The Polyurethanes & Construction Chemicals business reported lower net sales, primarily driven by lower global energy prices and decreased demand, particularly in furniture and bedding, automotive, appliance and aircraft deicing applications.

Industrial Solutions reported volume growth, supported by strong demand in surfactants and solvents used in cleaning applications. Volume grew in all geographic regions, except EMEAI, which reported a modest decline.

And finally, Performance Materials & Coatings operating EBIT was $162 million as volume growth in coatings end markets was offset by a decline in silicones applications and local price decreases.

Consumer Solutions reported demand growth in upstream siloxane and home and personal care end markets in the U.S. and Canada. However, these were more than offset by volume declines in other regions, which included the impact of COVID-19 in Asia Pacific.

Coatings & Performance Monomers reported volume growth, primarily driven by increased demand in Performance Monomers. Coatings volume grew in the U.S. and Canada, led by road markings and wood coatings, but was more than offset by reduced architectural coatings demand in Asia Pacific and EMEAI, driven by impacts from COVID-19.

Finally, I want to showcase the swift and early actions the Dow management team continues to take as these unprecedented events play out. We are actively working to preserve our financial strength and flexibility while also maintaining business continuity. And so today, we're announcing another set of proactive measures, which are summarized on Slide 9.

Let me be clear, Dow's operational and financial playbook have put us in a very good position. The actions we're announcing today build upon our focus to provide additional agility, drive cash generation and adjust our spending to current realities. To that end, the following near-term interventions are already underway and will gain momentum as we move through the remainder of the year. We have targeted a further $500 million release of cash from working capital. We are reducing expenses by $350 million, and we are decreasing our capital expenditures target to $1.25 billion, a reduction of $750 million versus last year. We're achieving this further reduction in a way that will maintain our long-term competitiveness and our most attractive growth projects.

Also, we are taking action to idle facilities or reduce operating rates in line with demand trends in the U.S., Europe and Latin America. We're working with our customers to get orders placed with enough lead time so that we can make the best asset decisions across our network and manage bottlenecks in the supply chain to deliver product where it's needed.

In plastics, to balance production to current demand, we are temporarily idling 3 polyethylene and 2 elastomers production units for at least 30 days. The plants have an aggregate annualized capacity of

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approximately 2 billion pounds and are located on the U.S. Gulf Coast and in Argentina. This equates to approximately 10% of the business' global annual capacity.

Our polyurethanes business has strong participation in durable goods segments such as automotive, furniture and bedding, appliances and construction. These segments are being heavily impacted by government-mandated shutdowns around the world. As a result, we're running our polyurethanes assets, including propylene oxide and MDI, at reduced operating rates.

And in silicones, we are running reduced rates across our global grid of siloxane trains, and our Zhangjiagang production facility in China will remain down on an extended planned turnaround into May. We also benefit from full flexibility at our silicones finishing assets, allowing us to quickly respond to demand in all formulated silicones applications around the world.

We are taking these actions with a thoughtful approach that will allow us to quickly respond as demand improves when economies around the world reopen. And while the timing and shape of a recovery remain uncertain, these actions position Dow to emerge even stronger when the global economy rebounds.

With that, let me hand it over to Howard.

Howard I. Ungerleider
President & CFO

Thanks, Jim, and good morning, everyone.

Turning to Slide 10. I'll start with an update on a key milestone reached at Sadara. On our last earnings call, we shared that Sadara was very close to signing its final logistics service agreement. I'm pleased to report the JV has now achieved that milestone. This agreement was important as it was the final substantive step to project completion. As a result, Sadara and the JV partners have now begun the debt re-profiling process and are in parallel currently engaged in discussions with its lenders. We expect this dialogue to advance over the course of this year, and we'll provide further updates as that unfolds.

While that financing discussion is progressing, Sadara is making good progress on executing its longer-term operating structure improvements. And from this year, Dow remains on track with its planned loans to Sadara, which remain in the range of $500 million.

Moving to Slide 11. Net sales were $9.8 billion. At the company level, local price declined 8% year-over-year, driven primarily by lower global energy prices. Currency decreased sales by 1%. Volume declined 2% year-over-year, or 1% excluding the Hydrocarbons & Energy business. Equity losses were $89 million, primarily driven by lower results at the Kuwait and Thai joint ventures.

Operating EBIT was $843 million, and operating EPS was $0.59. Positive drivers during the quarter included demand growth in food packaging, health and hygiene and cleaning applications on resilient consumer purchasing trends in response to COVID-19 as well as continued stranded cost removal. These gains were more than offset by year-over-year margin compression, notably in the polyurethanes and silicones chains as well as lower equity earnings.

Overall, the financial impact of COVID-19 and the substantial decline in crude oil prices was in line with our expectation of an approximately $200 million headwind in the quarter.

Moving to cash flow. We generated $1.2 billion of cash from continuing operations and increased our free cash flow by $240 million versus the year-ago period. Our earnings to cash conversion of 79% represented a significant improvement year-over-year. All of these metrics were helped by a solid release of cash from working capital, lower transaction costs as well as the cash inflow from recovery of $259 million from the Canadian tax authority related to the 2019 judgment against Nova.

Finally, we allocated our free cash flow in a balanced way, in line with our capital allocation priorities. In addition to the dividend, we repurchased $125 million of our own shares. Going forward, as a prudent measure, given the economic uncertainty, we are temporarily suspending our share repurchases for the balance of the year. We will, however, continue to reevaluate this lever in light of macro trends and our free cash flow generation.

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Moving to Slide 12. Dow remains well-equipped to navigate the current environment and ensure our financial flexibility through the cycle. We ended the first quarter with nearly $12 billion in total liquidity, including $3.6 billion in cash and equivalents. In the first quarter, we prudently drew down $800 million on our uncommitted lines to further bolster our cash position. Recall that last year, we extended our $5 billion revolver out to 2024. And importantly, all of our more than $8 billion of committed facilities remain untapped.

With our solid liquidity position, we have clear capital allocation priorities to maximize value, ensuring safe and reliable operations continues to be our #1 priority. And financially, the dividend is our top priority, followed by additional debt paydown. In fact, over the past year, you've seen us take proactive liability management actions, including over $3 billion of gross debt reduction in 2019 and extensions to our maturity profile, and we continued this practice this past quarter.

We opportunistically tapped the Eurobond market issuing EUR 2.25 billion of debt at an all-in rate of approximately 1%. We used the proceeds to repay debt and further extend our maturing profile. As a result, today, we have no substantive long-term debt maturities due over the next 3 years. These actions have also benefited earnings as our net interest expense run rate is now more than $100 million lower than 2019 and $200 million lower than 2018. As you can see, our financial strength and flexibility provides us solid foundation to navigate the current environment. And you should expect us to continue being active and opportunistic in further fortifying our financial position.

Before I move into modeling guidance, I want to take a minute to discuss how we view the quarter ahead and the range of potential scenarios we're planning for. These are clearly uncertain and unprecedented times. And due to the limited forward visibility, we felt it even more critical that we provide an assessment using the best information available to us year-to-date, how the second quarter and the rest of the year could unfold and the assumptions behind our range of potential outcomes.

Our forward guidance is based on our expectation that virus containment will continue in the coming weeks, and the global economy will gradually and sustainably resume as industries and businesses return to work and global government stimuli take hold. The progression of containment and recovery that we saw in China is now playing out in Europe, and we expect similar patterns to evolve in the U.S. and other countries. So our corridor of potential outcomes assumes that the second quarter will show the largest global economic and chemical industry impacts from COVID-19 and the collapse in energy prices.

Using China as a reference, our modeling guidance assumes recovery for Dow begins as economies reopen. Reports suggest that overall activity in China did improve quickly year-over-year in February to March, but improvements have been uneven across industries. Should the restart of the global economy be materially different than our assumptions, we intend to provide you with updates as the quarter progresses.

With that being said, let's move to Slide 13, where we highlight adjustments to the full year items we shared in January based on current realities. As Jim mentioned in his comments, our 2020 earnings should benefit from tailwinds of $350 million of expense reductions. We expect higher equity losses as our JVs also face similar trends as our core business. And we now expect a higher tax rate due to shifts in the geographic mix of earnings in our core business as well as lower equity earnings.

To preserve flexibility in this slower macro environment, we have reduced our CapEx spending target by $750 million versus 2019. We will have a cash tailwind of more than $400 million related to lower integration and separation costs for the balance of the year. And as I mentioned before, we have put further share repurchases temporarily on hold at least until we get better visibility on cash flow.

Getting into the details of the quarter ahead, let's please turn to Slide 14. We see second quarter sales in the range of $7.5 billion to $8.5 billion on our assumption of demand production peaking in the second quarter with the spread of COVID-19 and slowing economic activity globally. We have outlined on the slide our current sales expectations by segment in our normal fashion.

We're also providing corridors this quarter, along with high- and low-volume estimates so you understand the range of scenarios we see as possible for each segment. This is an attempt to give you a level of

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forward visibility in a very difficult period of forecast. Let me please reemphasize, though, these are estimates only.

As usual, we're highlighting the key EBIT drivers in the quarter on a sequential basis. In the Packaging & Specialty Plastics segment, while we expect continued robust consumer-driven demand for our food, health and hygiene and packaging applications, we see this being more than offset by demand softness in automotive and infrastructure applications as well as lower average energy prices. With the dramatic shift in oil dynamics, we expect naphtha cracking to continue its advantage, which should support our European cracker margins as well as keep demand relatively resilient there. And our actions in the Americas to idle capacity should help balance supply and demand until the economies around the world reopen.

In the Industrial Intermediates & Infrastructure segment, we're seeing high demand in the Industrial Solutions for our solvent and surfactants that make cleaning products effective to combat COVID-19. However, we expect that to only partly offset trough MDI spreads and weakness in end-market demand for our polyurethane products, particularly in consumer durable, construction and automotive applications.

And finally, in Performance Materials & Coatings, we expect demand softness for industrial applications and coatings as well as weakened fundamentals in our upstream siloxanes and acrylic building blocks, which are experiencing a challenging pricing environment on weak supply and demand fundamentals.

During the second quarter, we also anticipate we will begin to feel the positive effects of China continuing to slowly reverse the declines of the first quarter. And as the global economy continues to come back online beyond the second quarter, we also expect to see the discrete impacts related to the virus begin to reverse globally.

I'd like to just stress again that the near-term guidance you see here is based on our assumptions for how the COVID-19 containment and recovery could play out as we move through the second quarter and are based on the outlined assumptions. Given the limited visibility, we will remain strongly focused on cash flow and protecting our enterprise priorities.

With that, I'll turn it back to Jim.

James R. Fitterling
CEO & Chairman

Thank you, Howard. Turning to Slide 15. I want to emphasize several factors that we believe set Dow apart and support our competitive position. Given our more than 120-year history, Dow has a strong track record of successfully navigating periods of uncertainty. And as a result, we have built competitive positions and asset flexibility to be prepared for situations like those that we're experiencing today. We call these our points of distinction. And today, I will highlight a few points that set Dow apart.

On Slide 16, Dow's unmatched feedstock flexibility and superior product mix are key factors that underpin the higher and more resilient margins that we deliver across the cycle. We also have a geographic mix of assets that provide a structural hedge to feedstock dynamics. For example, in today's environment, we're able to capture improved cracking margins in Europe and Southeast Asia, which offset some of the margin compression we see in other regions. We have a leading Packaging & Specialty Plastics portfolio with assets designed to be flexible and adapt to feedstock volatility.

Our feedstock flexibility enables us to crack a wider mix of feedstocks. For example, we have 2 to 3x more propane capability than our peers. We can implement this at a furnace-by-furnace level in our crackers. As heavier feedstocks like naphtha become advantaged, another limitation could be co-products. If not managed adequately, ethylene units may be forced to cut rates or switch feedstock. And we've seen some signs of these strains in the industry as demand for co-products are tied to automotive and fuel end markets, which are currently experiencing weak demand. But here, too, Dow has advantages.

We have aromatics processing units in Europe and on the U.S. Gulf Coast, which give us flexibility to consume and process Thai gas from the crackers. We have capabilities of handling increased C4 streams from the cracker, which includes co-cracking to reprocess the C4 in our furnaces. In short, our feedstock flexibility and co-product management capabilities prove their worth over the cycle time and time again,

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and this period is no different. These capabilities preserve our low cost-to-serve position regardless of which feedstock scenario is advantaged.

Further downstream, our product mix is another differentiating factor. Our mix of polyethylene and functional polymers products delivers a more resilient and higher-margin profile, which begins to stand out in softer periods like we started to see in 2019 and we are seeing today. The benchmarking we've delivered over the past 2 years has highlighted this performance as well. You can find our 2019 benchmarking data in the appendix of this earnings slide presentation and on Dow's investor website.

Another point of distinction comes from the market segments that we've been targeting and the consumer orientation that we have in our products and solutions, which I'll cover on Slide 17. With our primary market verticals of packaging, infrastructure and consumer care, our business portfolio is tilted towards the consumer. And in today's situation, we find that a substantial part of our business is essential to some of the most critical end markets that consumers value.

Related to the pandemic, Dow has a breadth of solutions that are in high demand. We see a strong pull in applications such as intermediates for cleaning products, pharmaceutical ingredients, packaging and nonwovens for gowns, wipes and masks, and food packaging to secure the freshness and safety of our food supply. These are moments when our materials science expertise and technologies prove their worth and play a significant role.

For example, in the pharmaceutical and health and hygiene markets alone, the following are examples of just some of the products enabled by materials science innovation and our diverse set of chemistries: silicone technologies that enable disposable gloves and tissues, detergents and hard surface cleaners, soaps and shampoos; plastics that are vital for syringes, medical tubes, vials, hoses, valves, device and pharma packaging, drapes, gloves and gowns; polyurethane solutions used for hospital bedding, rigid insulation for medicine refrigeration and transport and safety issues; coatings applications for medical devices and tapes, potable water pipes, paper food packaging and paper cups; and our Industrial Solutions team recently found an innovative way to reconfigure existing underutilized assets to increase our volume of isopropyl alcohol by up to 50%. This is a critical raw material for hand sanitizers.

Out of periods of change, new ways of living, working and staying healthy are developing across the diverse markets that we serve, such as improving the performance, comfort and convenience of PPE, smart building and infrastructure solutions for multipurpose spaces, restaurant takeout food packaging, home and surface care solutions and antimicrobials. Dow's materials science know-how and strong design collaborations with customers can help enable new solutions to these developing market needs.

On Slide 18, the last point of distinction I want to highlight is the global scale of our operations. This is something we often take for granted, but the year so far has emphasized just how much of an advantage it provides to our ability to meet customer demand, rapidly adjust and innovate and take advantage of shifting downstream and upstream dynamics. We have world-class manufacturing sites in every geography with well-developed, agile, regional supply chains and a deep understanding of the needs of our customers in all of our markets.

Our geographic diversity serves as a natural hedge for our business operations and uniquely positions us to shine in times of crisis and uncertainty. In fact, all of these strengths were on display in the first quarter as our teams rapidly worked through regional and global supply chain complexity, manufacturing limitations and shifting consumer trends. And as we move through the rest of the year, I see these strengths continuing to provide Dow with unique advantages. Altogether, Dow's points of distinction, unmatched feedstock flexibility, a superior product mix, participation in critical end markets and geographic diversity, set us apart and give us a competitive edge today and throughout the cycle.

In summary, Dow is prepared for what's ahead. Our balance sheet is strong, and we have plenty of liquidity to meet our obligations with no significant long-term debt due over the next few years. We continue to take proactive and thoughtful actions, both operationally and financially, with a focus on safety and cash flow, which we firmly believe will serve us well through this period. We have unique points of distinction that differentiate Dow and position us for upside when the economic recovery begins. We have

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a remarkable team who continues to inspire and deliver every day, and we are focused on navigating through this challenging time, emerging even stronger and continuing to execute our growth playbook. With that, I'll turn it back to Colleen to open the Q&A.

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Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Vincent Andrews with Morgan Stanley.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Maybe I could just ask about how you're thinking about in Packaging & Specialty Plastics. If you look at the price decline that you guided to for 2Q, could you just talk about how much of that is coming out of -- do you think it's going to come out of the U.S. market versus it's just the weak export market or the EU? And how are you thinking about ethane and propane through the quarter? There's been some volatility in ethane over the last months, and propane seems to be pretty -- being pretty stubborn relative to the move in crude so far.

James R. Fitterling
CEO & Chairman

Vince, everybody is doing great here, and thanks for asking. We hope you are, too. Most of the pricing -- and I think what you're saying on pricing is that you're seeing things kind of come to a global kind of a price right now and that you would expect that with what's happened. I think you're going to see a little bit more come out in Europe than in North America. A little bit less in Latin America, a little bit less in the Pacific. Actually, we've started to see exports to China stepping up pretty dramatically. China has reduced the tariffs coming in. And the Chinese economy is starting to rebound versus March. I would say we start to see activity there in late March and through the month of April, so the industrial part of the economy is starting to get rolling again. Consumer part, still a little bit uneven. And then obviously, we did what we did on supply just to balance off demand.

So we had a good strong first quarter. Volumes were flat, slightly up in Packaging & Specialty Plastics, but we're going to see some impact on volumes in the industrial part of the sector in the second quarter, which is why we tightened up some of the supply. And that was primarily due to industrial shipping, industrial applications, automotive applications. We're starting to see the automotive industry talk about coming back here in the month of May and also in the month of May in Europe. So hopefully, we'll see the May, June turn in the economy on the industrial side here in North America, Latin America.

Operator

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

John Ezekiel E. Roberts
UBS Investment Bank, Research Division

Can you comment on other industry closures you might be seeing? We don't usually think of Dow as high cost, although ethane has kind of slipped here currently. But are we seeing other closures we haven't heard about yet from competitors in the marketplace?

James R. Fitterling
CEO & Chairman

Yes, John, thanks for the question. We're not closing high-cost assets. We're closing to balance demand. So look, all of these are reasonable cost assets, but the reality is there's been a pretty significant amount of industrial capacity shutdown on the downstream. And so we don't feel like, in this environment, really plowing a lot of material into inventory is the right thing to do. So that's why we're dialing back the capacity.

I have seen some delays and indefinite suspensions of projects. There was one this week in Ohio, the Thai project that was going to go ahead. So we're starting to see some of those kinds of announcements. We're seeing reduced rates across polyurethanes across the globe, basically, and we've got polyurethanes

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MDI capacity down in China right now, not us, but competitors do, really to balance out the fact that downstream automotive and appliances and construction for insulation materials has been slow. So I think that's what you're seeing. I think it has less to do with the cost position and more to do with supply/demand.

Operator

And David Begleiter with Deutsche Bank will have our next question.

David L. Begleiter
Deutsche Bank AG, Research Division

On the same point, the idling of the Americas ethylene, polyethylene plants, is your decision being influenced at all by the cost competitiveness of these plants given the recent drop in oil prices? And if not, are you concerned about losing any share to competitors who are not being as disciplined as you are?

James R. Fitterling
CEO & Chairman

No, I don't think we'll lose share, David. Actually, we were flat to slightly up in share in the first quarter across our plastics business. And ethylene costs are still very low in the U.S. Gulf Coast, so we haven't idled anything on the ethylene side. In fact, right now, probably 9% to 10% of ethylene production capacity is out on the U.S. Gulf Coast. So we'll balance that out.

We've been operating very well from a working capital standpoint. And I think what we're trying to do here is just make sure that we don't plow a lot of material into inventory until we see a good demand signal coming on the back end. We're starting to get good signs. We're starting to get positive signs out of many states in the United States for a May opening and some parts of Europe, like Germany, Austria, Switzerland. And then I think as confidence builds, testing comes along, people are going to be more certain about going back into manufacturing, and consumers will be back in the market. And at that point, it's easy to fire these polyethylene units back up and meet that demand.

Operator

And next, we'll move to Jonas Oxgaard with Bernstein.

Jonas I. Oxgaard
Sanford C. Bernstein & Co., LLC., Research Division

A follow-up on the previous question there. The 5% to 10% lower ethylene, that seems to be higher than the industry average. How much of that is refilling your own inventory from TX-9? And maybe a sort of a hypothetical, if TX-9 had not been down, do you think you would have been forced to reduce rates more in line with industry average?

James R. Fitterling
CEO & Chairman

Yes. Thanks, Jonas, for the question. Texas-9 is back up, so it's at the $2 million run rate right now. Most of that expansion on Texas-9 was for MEGlobal for their consumption for MEG. And so they've been buying ethylene in the market to really get themselves started up and running, so this supplies them in the marketplace. And I haven't seen any reduction in volumes there.

I think the other thing that's happening is, as you've seen the automotive industry go down, people that are cracking naphtha or cracking heavier don't have much place for some of the aromatics and some of the off-grades to go. And so the rubber industry has been slow. Automotive industry has been slow. So that has brought rates down in some other crackers, and then you've had some more turnaround and outage in other crackers. So as we go into the quarter, we feel like the toughest quarter here is going to be Q2. And so we want to make sure that we balance supply and demand through Q2 and position ourselves to be able to turn things back on and come up as the industry starts to come back.

Operator

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And we'll move on to Jeff Zekauskas with JPMorgan.

Jeffrey John Zekauskas
JP Morgan Chase & Co, Research Division

What's your cash tax rate? Is it between 30% and 35%? Or is it lower or higher? And in the United States, how will your feedstock slate in producing ethylene change versus 2019? In 2019, what were your rough percentages of ethane, propane and naphtha? And what do you think they'll be this year?

James R. Fitterling
CEO & Chairman

Let me get Howard to cover the tax rate, while I have to do some CEO math on your cracking question.

Howard I. Ungerleider
President & CFO

All right. I'll wait for you to do CEO math. Hey, Jeff, so look, the tax rate -- the P&L tax rate that we published this morning for Q2 and for the full year is between 30% and 35%, slightly higher than what we had guided to earlier and really 3 issues: lower equity earnings, different yield mix of earnings and then some discrete items. But I would say, on your question on cash tax, it's lower than that rate. I would guide you to something in the mid-20s.

James R. Fitterling
CEO & Chairman

And to your question on cracking, Jeff, and I'll just focus on U.S. Gulf Coast here because that's where the bulk of the flexibility is. Yes, I'd say we were in the 75%, 80% ethane cracking through the year. The balance would be propane and butane and very little talk for the back half of the year. It's 0 on naphtha. Naphtha has come down, but honestly, ethane is still the best crack. And so if ethane gets tight and we start to see prices rise and propane comes into the slate, we'll swing over to our propane flex. And as you know, we can swing 70% of the capacity over to propane. So we've got that flexibility built into what we're modeling. And I'm optimistic that this is a more resilient gas market than people are estimating.

Operator

And we'll move on to Hassan Ahmed with Alembic Global.

Hassan Ijaz Ahmed
Alembic Global Advisors

Just wanted to sort of continue with this theme of the feedstock side of things. Let's just assume for a second that the feedstock environment that we are in right now is the new normal in terms of roughly where crude oil pricing is, this assertion that in this lower crude oil pricing environment, obviously, you'll see curtailments and cuts on the shale side of things. Maybe ethane isn't as advantaged as it used to be. So now sort of beyond the extreme near term, if that is the feedstock cost environment, how do you see the second wave of cracker and derivative sort of units play out?

I mean, in theory, the CTO/MTO side will not look that competitive, maybe naphtha looks a bit more competitive. Certainly, whoever has flexibility will be better off than those that don't. And then you have this whole sort of notion of a lot of capacity in theory coming online eventually in China. A lot of the facilities here in the U.S. just being pure ethane-based facilities. I mean how do you see those -- all of those sort of different factors playing out if feedstocks continue to act the way they have over the last couple of months?

James R. Fitterling
CEO & Chairman

Thanks, Hassan. That's a lot in that question. But I would say right now, if things continued where they are today, we'd say there's about 21 million metric tons, about 11% of C2 capacity that's at risk. That's either due to age or the scale or the high conversion cost or their feedstock cracking capability. I think one

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of the assumptions that everybody made with naphtha coming down was that the whole world was going to switch to naphtha cracking. But what people forget is that you make so many byproducts on naphtha, and there's no home for those byproducts. So those byproduct credits go away. At the end of the day, ethane and propane still remain the most competitive crack, and we think that's going to continue.

The other assumption that goes into this then is what happens to oil price, and oil has responded to just an unbelievable slowdown in demand, which is primarily because we told everybody to stay at home and nobody is traveling. But what we're seeing in China is people are going back. Traffic rates in China for car traffic and truck traffic are back up to 80% of what they were pre-COVID. And I think when people come back here, they're going to come back into their cars. That's going to tighten up the demand side or the demand side on oil. At the same time, some of these supply adjustments are going to come back in.

So I'm not predicting that we're going to go to this is the oil demand for the rest of the future. I think if you look over a long, long time, that oil demand growth tracks population and what's going on around the world with the development of the economy. We'll get back to that. The question for everybody is just, what's the time frame? Are people going to -- if we get a test and we get a treatment, are people going to get optimistic and go back faster? Or is this going to take longer than people think?

Howard I. Ungerleider
President & CFO

And Hassan, on your CTO/MTO question, I would say about $6.5 million of that $21 million is CTO/MTO, which with oil below $50, that's -- those are really stressed assets.

Operator

And we'll move on to PJ Juvekar with Citi.

Prashant N. Juvekar
Citigroup Inc, Research Division

Just a quick question again on these co-products. You mentioned that there is no demand for co-products and prices are coming down. How would that change naphtha margins? And then can you compare current today's ethylene margins in U.S. versus Europe? You're in a good position to do that. And any thoughts on new China ethylene crackers that were coming online?

James R. Fitterling
CEO & Chairman

I think what we've seen so far, PJ, in terms of the cost curves on ethylene is that naphtha has come down, but lighter cracking ethane, propane cracking is still advantaged to $100 or maybe more than $100 a ton. And so that is a byproduct of the byproduct credits. And when you run these naphtha crackers, typically, you're running them to produce ethylene and you take credit for all the byproducts that you sell in the market and net that back against the ethylene capacity. When there is no margin on the byproducts, there's no netback credits. And so that's what we're looking at is there's no place for the C4s to go, the butadiene demand is down, rubber demand is down. And so at some point, you flip those markets upside down. And at that point, people just slow down rather than crack more naphtha. So that's what we're looking at, and I think that's what we're going to see play out.

Operator

And we'll move to John McNulty with BMO Capital Markets.

John Patrick McNulty
BMO Capital Markets Equity Research

On the cost side, can you speak to the $350 million cost asset that you're looking to pull out? How quickly that can be phased in? And then I guess also, in terms of the cost and efficiency improvements that you're looking for in Sadara, how can we be thinking about that playing through throughout the year as well and if that may be expedited in any way?

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James R. Fitterling
CEO & Chairman

Yes. Let's -- Howard can put a good time frame to that.

Howard I. Ungerleider
President & CFO

Yes. Yes, John, on the $350 million, I would say, I would look at about 20% of that realized in the second quarter. And then the 80%, pretty evenly split between the third quarter and fourth quarter, maybe a little bit of a lighter third quarter and a heavier fourth quarter just as we continue to take those costs out.

Relative to Sadara, look, if these naphtha margins hold, you'll actually see a margin expansion in Sadara as the second quarter progresses. And then on the cost out, the team continues to do a good job of reducing costs pretty evenly through the year. In fact, if you looked at our equity earnings in the first quarter, it was the one JV that actually was flat or up on same quarter last year or prior quarter basis, and that's really because they saw the same thing that all of the other JVs saw, which was some margin compression because of the demand disruption, but they were able to offset that with the cost.

The other thing that they're also working on is just the sell up. Remember, we brought 26 unit operations on pretty much in about a 12-month period. So we sold them out, but now we've got to sell them up. And so the teams are working on that. That's not going to be a 1- or 2-quarter activity, but that's over the course of about 3 or 4 years.

Operator

And we'll move on to Frank Mitsch with Fermium Research.

Frank Joseph Mitsch
Fermium Research, LLC

And Jim, I'd like to echo your appreciation and congrats to Neal and offer a warm welcome to Colleen. So Dow has spoken in the past about multiple Monte Carlo simulations, and I'm not sure if you factored in a pandemic or oil collapse in those simulations. But here we are, if I'm looking at the first half of 2020, we're running at a run rate below $6 billion in EBITDA. So I guess my question is, at what level decline in profitability do you start to get concerned about the dividend? And if you could offer any comments regarding that, that would be very helpful.

James R. Fitterling
CEO & Chairman

Sure. Let me have Howard do that because he went through a tremendous amount of this work pre-spin as we came out of spin. Howard?

Howard I. Ungerleider
President & CFO

Yes, Frank. Look, we're really smart. I don't know that we factored in a pandemic into the Monte Carlo simulation. So let me use the current most bearish Wall Street number that's out there on our 2020 earnings, around $5.1 billion, $5.2 billion of EBITDA. If you take out interest and taxes, that leaves you with about $4 billion. And then from there, you've got a $2.1 billion dividend. You've got what we said today was $1.25 billion of CapEx and $500 million of Sadara. So you've got plenty of room even at that bearish number to do it just with operating earnings and more than cover the dividend.

We're also working on the nonoperating side of the house. So part of our cash flow in the first quarter was the $250 million that we got from the Nova judgment on the tax side. Obviously, if earnings are that kind of depressed and oil is down, we're going to see at least a $500 million release in cash on working capital. And then we've got some of the other nonoperating things that we're working on, which is the Olin payment that's expected and contractually obligated at the end of the year of about $500 million. So even

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at that level, we are more than comfortable and adequately able to cover that dividend. And we've got $12 billion of committed liquidity, including $3.6 billion of cash on hand.

Operator

And we'll move on to Chris Parkinson with Crédit Suisse.

Christopher S. Parkinson
Crédit Suisse AG, Research Division

Can you just walk us through your various Sadara assumptions just regarding the structural op improvements you referenced and just also update us on your debt re-profiling discussions?

James R. Fitterling
CEO & Chairman

Sure. Howard, do you want to hit Sadara, all of our assumptions and our debt re-profiling?

Howard I. Ungerleider
President & CFO

Yes. So look, I mean what we said in the prepared remarks this morning, we're very pleased that Sadara got that last remaining rail agreement, logistics agreement signed. That is the final substantive step to achieve PCD. Now we have a series of what I would call administrative steps that Sadara has got to work through, things like registration of their security documents for the lenders, verification of the project costs and some of those other things. Those should be well underway as we approach the end of the second quarter, if not completely done.

As a result of the logistics agreement being done, the Sadara, Saudi Aramco and Dow treasury teams have jointly begun the lender re-profiling discussions. In fact, those discussions got actively started this week. I would say for modeling purposes, it's going to take the balance of the year to make that happen. You've got ECAs in the mix, you've got sukuk financing and you've got international banks. So it's going to be a complicated discussion. That's why we say, look, $500 million of cash this year, in line with last year, makes sense from a modeling purpose standpoint. But we're pretty focused on making sure that we get that done by the end of the year. That is the goal.

James R. Fitterling
CEO & Chairman

And if you see, Chris, Sadara's first quarter results were relatively flat with last year. We're taking lots of actions, Sadara and Aramco and Dow, to make sure that they can continue to deliver performance similar to last year. And we put in the model $500 million, which is our contribution to repayment of principal for the year. So that's how much cash we'll be looking at putting in this year.

Operator

And we'll move on to Steve Byrne with Bank of America.

Steve Byrne
BofA Merrill Lynch, Research Division

I wanted to drill in a little more on the $350 million of cost cuts. Can you describe what functional areas and businesses these came from? And perhaps, you can talk a little bit about the learnings from your benchmarking analysis. Any specific productivity initiatives that have come out of that?

James R. Fitterling
CEO & Chairman

Yes, Steve. So let me try to hit it and then ask Howard, if I miss anything, to come in. So it isn't -- I think most people will go to this and say that it's headcount-related. We have tried not to do that. Obviously, we've got almost all of our plants running today. So we're trying to support our customers. We are idling some capacity, but we aren't laying off people in order to do that. We've cut discretionary spend. And

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then obviously, big buckets of spend like travel and other things are near 0. And so there's been a shift in some of the spending. We've moved out some turnaround activity. That carries with it, obviously, some discretionary expense that goes along.

And so we've looked at different types of activities like that where we can cut discretionary spend out, and we've got that modeled out for the rest of the year. But we haven't -- given that this is a pandemic and one of the biggest challenges around the world has been -- the number of people that are unemployed, we have not tried to add to that because that's a burden right now for a lot of governments around the world.

Howard I. Ungerleider
President & CFO

We've also done a fair amount of digitalization as we brought the DuPont assets in and set up for regional back-office centers, one in China, one in the Netherlands, one in the U.S. here in Michigan, and then another in São Paulo. So we've been able to do a lot of streamlining as well.

Operator

And next, we'll move to Arun Viswanathan with RBC Capital Markets.

Arun Shankar Viswanathan
RBC Capital Markets, Research Division

I guess I just wanted to ask about both polyethylene and polyurethanes. Both markets have gone through some structural changes here, polyethylene on the feedstock side and potentially demand side; polyurethanes on the demand side with maybe reduced demand for consumer discretionary items. I guess, would you agree with those characterizations? And I guess, when you think about that, thinking longer term, do you foresee any changes in your strategy? In polyurethanes, you've talked about adding systems houses and PE, you talked about selling up. Are those still valid in this environment? Have you seen new customers trade down or change their strategy as well?

James R. Fitterling
CEO & Chairman

Arun, I think we'll get back to the growth playbook, as we mentioned in the script. And I think it's just a matter of timing here. So it doesn't make sense right now to continue to plow cash and the capacity when the demand in Europe and North America and Latin America has slowed down because people are staying at home. So that's why we're taking some of the actions that we're taking right now, it's just to balance that demand. But that demand will come back. People are not going to stay at home forever. We're helping governments right now with safe ways to return to work. And we're operating safely 14,000 Dow people go to the sites every day, and we're operating safely and people are healthy.

So we know it can be done, but it's just going to take some time before the consumer confidence to come back. And that's why we're doing what we're doing. Downstream expansions in our Industrial Solutions and in our functional silicones products are still continuing. Systems house will come back as the automotive business and the installation and construction business comes back, and we'll continue to look at downstream on plastics.

Operator

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

Colleen Kay
Vice President of Investor Relations

Thank you, everyone, for joining our call today. We appreciate your interest in Dow. For your reference, a copy of our transcript will be posted on Dow's website within 24 hours. This concludes our call, and have a safe day.

Operator

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And that will conclude today's call. We thank you for your participation. You may now disconnect.

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