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Dow Inc. NYSE:DOW

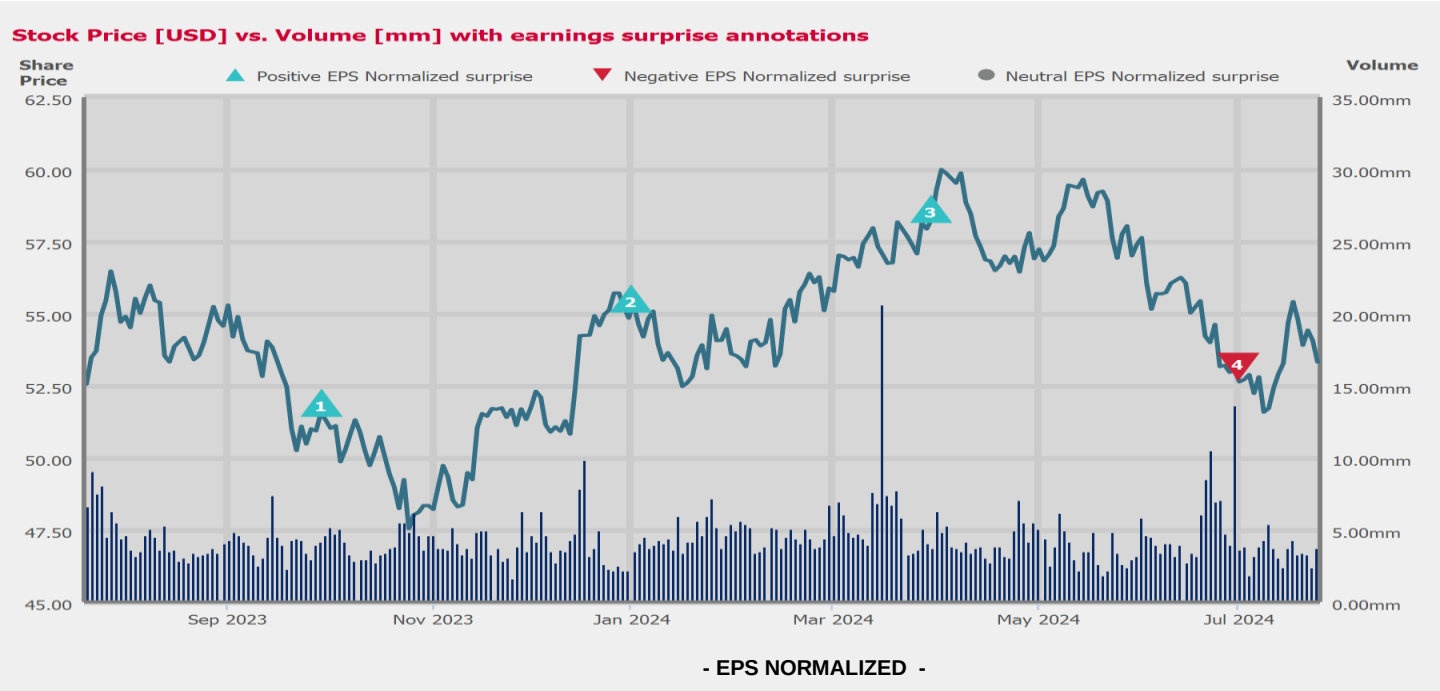
FQ2 2024 Earnings Call Transcripts

Thursday, July 25, 2024 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.72	0.68	(5.56 %)	0.81	2.70	4.10
Revenue (mm)	11016.82	10915.00	(0.92 %)	11351.45	44179.20	46718.16

Currency: USD
Consensus as of Jul-25-2024 12:58 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2023	0.45	0.48	1 6.67 %
FQ4 2023	0.40	0.43	2 7.50 %
FQ1 2024	0.45	0.56	3 24.44 %
FQ2 2024	0.72	0.68	4 (5.56 %)

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Presentation

Operator

Thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome everyone to the Dow Inc. [second quarter] 2024 Earnings Report. [Operator Instructions]

I would now like to turn the conference over to Andrew Riker. Andrew, the floor is yours.

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, Dow's 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 statements 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 second-quarter results and operating segment performance. Jeff will then share an update on the macroeconomic environment and modeling guidance, followed by a discussion on how our proven playbook will advance our near-term priorities and support growth.

Jim will then provide more color on key milestones for our long-term strategy, including how we will capture earnings upside as macroeconomic conditions improve. Following that, we will take your questions.

Now I'll be turning the call over to Jim.

James R. Fitterling
Chair & CEO

Thank you, Andrew. Beginning on Slide 3. In the second quarter, Team Dow delivered sequential top- and bottom-line growth as well as a third consecutive quarter of year-over-year volume growth. We achieved this despite a slower-than-expected global macroeconomic recovery, particularly in areas like building and construction and consumer durables. Net sales were $10.9 billion, down 4% versus the year-ago period and up 1% sequentially, driven by gains in Packaging & Specialty Plastics and Performance Materials & Coatings.

Volume increased 1% versus the year-ago period with gains led by the United States and Canada. Excluding Hydrocarbons & Energy sales, which were down primarily due to lighter feedslate cracking in Europe, volume increased 4%. Sequentially, volume increased 1% with gains in all regions except Asia Pacific, which was flat. Local price decreased 4% year-over-year. Sequentially, local price increased 1%, led by gains in Europe, the Middle East, Africa and India or EMEAI. Operating EBIT was $819 million, up $145 million sequentially, reflecting gains in Packaging & Specialty Plastics and Performance Materials & Coatings. Cash flow from operations was $832 million on higher earnings and an efficient release of working capital, resulting in an 85% cash flow conversion on a trailing 12-month basis.

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Our focus on cash flow generation enabled $691 million in returns to shareholders, including $491 million through dividend and $200 million in share repurchases. In June, we published our 2023 INtersections Progress Report. This report showcases the positive impact that we are making on the environment and society and importantly, how those actions support long-term profitable growth. Now turning to our operating segment performance on Slide 4.

In the Packaging & Specialty Plastics segment, operating EBIT was $703 million, down $215 million year-over-year. This was driven by lower integrated margins, higher planned maintenance activity and lower nonrecurring licensing sales. Local price declines were due to lower downstream polymer prices, primarily in Asia Pacific. Volume decreased year-over-year as higher demand for functional polymers and polyethylene was more than offset by lower merchant hydrocarbon sales, primarily due to lighter feedslate cracking in Europe. Sequentially, operating EBIT increased by $98 million, primarily due to higher integrated margins behind both price and volume gains.

Moving to the Industrial Intermediates & Infrastructure segment, operating EBIT was $7 million, an improvement of $42 million versus the year-ago period. Results were driven by improved equity earnings, partly offset by lower integrated margins. Local price declined year-over-year, but volume was up, driven by gains in Polyurethanes and Construction Chemicals. Sequentially, operating EBIT decreased $80 million driven by higher planned maintenance activity and higher equity losses as well as lower volumes.

And in the Performance Materials & Coatings segment, operating EBIT was $146 million, up $80 million compared to the year-ago period driven by broad-based business and geographic volume growth. Local price declined year-over-year, but volume was up, driven by gains in both businesses and all geographic regions. Sequentially, operating EBIT increased $105 million, driven by volume and price gains in both businesses and lower planned maintenance activity.

Now I'll turn it over to Jeff to review our outlook and share some examples of our playbook in action.

Jeffrey L. Tate
Chief Financial Officer

Thank you, Jim, and good morning to everyone joining our call today. Moving to Slide 5. In the near term, we expect macro-dynamics to remain largely unchanged. While global manufacturing PMI has been positive since February 2024, the pace of the global economic recovery has decelerated slightly. This is primarily led by China, where economic growth in the second quarter was lower than the market expected. Overall, we continue to keep a close eye on the weight of inflation on the U.S. consumer, global interest rates and geopolitical tensions.

Looking across our 4 market verticals, packaging demand is seeing global growth primarily in the U.S. and Canada as the industry experiences robust domestic and export demand for polyethylene. In Europe, soft demand across the value chain is reflected in manufacturing PMI levels which despite stabilizing remained in contractionary territory. And in Asia, packaging demand has remained steady, but the region has been impacted by port congestion and rising transportation costs.

Infrastructure demand, primarily residential construction continues to be soft across most regions. In June, existing U.S. home sales, which tend to drive residential paint sales from both buyers and sellers were below prior-year levels, and building permits were down slightly year-to-date through June. Eurozone construction PMI remains in contractionary territory and declined to 41.8 last month, down from 42.9 in May. And in China, new home prices were down 4.5% year-over-year in June.

Consumer spending has shown resilience in most regions, except Europe, where consumer confidence remained negative in July. In the U.S., retail sales were up 2.3% year-to-date through June, but furniture and bedding sales remained low. In China, retail sales increased by 2% year-over-year in June, but marked the first month of deceleration since July 2023.

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And in mobility, China auto production was down 2.1% year-over-year in June, amidst the potential for tariff increases and slow to materialize incentives. In the U.S., auto sales were down year-over-year in June after increasing by more than 2% in May. Against this backdrop, we delivered the third consecutive quarter of year-over-year volume growth, and we'll continue to leverage our differentiated portfolio to capitalize on areas of demand strength while maintaining operating and financial discipline. And I'll touch on these actions in more detail shortly.

Now turning to our outlook on Slide 6. We expect third quarter earnings to be slightly above second quarter performance, continuing our strain of sequential improvement. We experienced minimal disruption from Hurricane Beryl in the U.S. Gulf Coast, and we expect the positive sequential signals in some markets will continue.

In the Packaging & Specialty Plastics segment, we expect modest top line sequential growth. Domestic and export demand for polyethylene in North America will remain robust and EMEAI will experience typical lower demand seasonality from the summer holidays. In addition, the completion of our cracker turnaround in Sabine, Texas in the second quarter will be offset by another planned turnaround at our St. Charles, Louisiana cracker in the third quarter.

In the Industrial Intermediates & Infrastructure segment, market conditions remain mixed. Demand in energy and pharma end markets remains resilient, but consumer durables demand has not shown any significant signs of inflection. We expect an approximately $25 million headwind due to the planned maintenance activity in the U.S. Gulf Coast. Importantly, at the end of June, we successfully started up our Glycol-2 facility at Louisiana operations which will ramp through the quarter and provide a sequential tailwind of $75 million.

In the Performance Materials & Coatings segment, we continue to see growth in downstream silicone applications across most end-markets but siloxanes prices are still under pressure. Lower seasonal demand for building and construction end-markets are expected to be a headwind of approximately $50 million while lower planned maintenance activity will contribute a $25 million tailwind.

Moving to Slide 7. As we navigate the current market conditions, we are focused on executing on our proven playbook to deliver increased value over the cycle. We benefit from our global asset footprint with leading positions in every region. This is particularly true in the cost-advantaged Americas, where approximately 65% of our global production capacity is located, and we expect to reach 70% by 2030.

With leading low-cost feedstock positions plus our industry-leading feedstock flexibility, Dow is well positioned to capture growing global demand for our products. And supported by our solid financial position, we remain on track to deliver our counter-cyclical growth investments. Team Dow continues to operate with discipline as we maintain our low-cost-to-serve mindset, focus on maximizing cash flow and further strengthen our financial position. Our actions include continued derisking of our pension liabilities with minimal, if any, cash outlay.

In fact, this month, we initiated the termination process for 2 of our U.S. pension plants by the end of 2025. While not impacting previously earned benefits, Dow was able to provide a secure, cost-effective way of paying pension benefits in reducing administrative costs and risk to the company. Lastly, in the near term, we expect to enhance our cash flow generation by executing over $1.5 billion in unique to Dow levers. We plan to use the proceeds to support our strategic growth investments, including our Path2Zero project in Fort Saskatchewan.

In addition, we expect to receive more than $1.5 billion in cash and tax incentives by 2030, which is closely aligned with our CapEx deployment for the project.

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

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James R. Fitterling
Chair & CEO

Thank you, Jeff. Moving to Slide 8. Our expectations for 2024 reflect a slower pace of recovery in certain end-markets. Dow is positioned to capture more than $3 billion in EBITDA upside as we return to mid-cycle earnings levels. We are encouraged by the positive top-line signals across our portfolio. This is demonstrated by our year-over-year volume improvement in the last 3 quarters as well as price stabilization across the entire enterprise over that same period.

In Packaging & Specialty Plastics, we anticipate supply-demand fundamentals to continue improving as the recent polyethylene capacity builds in North America have been fully absorbed by growing global demand. We're also starting to see rationalization of higher-cost assets, particularly in Europe. And going forward, we do not expect to see any new capacity in the cost advantaged Americas until the 2026, 2027 timeframe.

In Industrial Intermediates & Infrastructure, we've maintained a disciplined approach to our inventory management. The beginning of an interest rate-cutting cycle will accelerate demand in our Polyurethanes business. In Industrial Solutions, the majority of our U.S. Gulf Coast capacity has aligned to higher-value EO derivatives. With the successful restart of our Glycol-2 facility in Louisiana, we will see positive impact in consumer, mobility, pharma and energy end-markets.

And in Performance Materials & Coatings, industry siloxane capacity additions are expected to slow due to prolonged negative cash margins impacting non-integrated players. And lastly, our Coatings business is highly correlated to existing home sales with market demand forecasted to see pre-pandemic levels by next year.

With these positive indicators, combined with an economic recovery, Dow is positioned to capture significant annual earnings upside at mid-cycle levels.

Next, on Slide 9. The work we've done to strengthen our financial foundation, has allowed us to invest counter-cyclically and lower risk, higher return projects that will drive more than $3 billion in annual earnings growth by 2030.

Our near-term investments are progressing and remain on track to deliver more than $2 billion of underlying mid-cycle EBITDA by mid-decade. To date, we have added the capacity to deliver $800 million of that $2 billion. So far this year, we've enhanced our product mix to produce higher-value elastomers for photovoltaic films and ethylene copolymers at our site in Tarragona, Spain. We're also advancing multiple downstream silicones debottlenecking projects to support growth for liquid silicone rubber and adhesives.

Our team in Fort Saskatchewan is making solid progress on our Path2Zero project. Phase 1 start-up is expected in 2027 and Phase 2 will start up in 2029. The project will deliver an additional $1 billion of EBITDA annually at full run rates by 2030. Construction continued in the second quarter where we started our piling program, which will anchor the foundation of our new net-zero cracker. Major foundation work is expected to begin in the third quarter.

We're also advancing our Transform the Waste strategy to deliver more than $500 million in incremental underlying EBITDA by 2030 through partnerships and direct investments.

In June, we announced that Dow signed an agreement to acquire Circulus, a leading U.S.-based mechanical recycler. This will help us accelerate our goals while enabling more high-performance circular products, the brands and customers are demanding. We expect the deal, which includes 2 facilities with combined capacity of 50,000 metric tons of recycled materials annually to close in the third quarter. Consistent with our best owner mindset, we also announced in the second quarter that we reached an agreement with Arkema to sell our laminated adhesives business, which is part of the Packaging & Specialty Plastics portfolio. That transaction is expected to close by the fourth quarter of 2024.

And lastly, in the second half of the year, we're planning to commercialize products with greater circularity using offtake from both the Valoregen mechanical and Mura advanced recycling facilities.

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In closing, on Slide 10. Dow remains focused on driving earnings growth by executing our playbook delivering on our capital allocation priorities and closely managing costs as we advance our long-term strategy. We're committed to operational and financial discipline, we've delivered returns and cash generation better than our peer benchmark, and we will maintain our low cost-to-serve mindset while capturing high-value demand and optimizing margins.

Our financial flexibility allows us to invest counter-cyclically in higher-value areas that will raise our underlying earnings, reduce emissions, and drive circularity. With all of this, Dow is well positioned to create significant upside in top- and bottom-line growth as cycle dynamics improve, and we unlock the full benefit of these investments enabling higher shareholder returns.

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

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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

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from Hassan Ahmed with Alembic Global.

Hassan Ijaz Ahmed
Alembic Global Advisors

Jim and Jeff, just a question around Q3 sequential guidance. Particularly, as I sort of take a look at some of the commentary around P&SP, it seems that you guys are looking for relatively flat EBITDA sequentially. Obviously, I understand you guys have the St. Charles cracker sort of planned maintenance. But I'm just trying to get a better sense of what's baked into that guidance from an underlying fundamentals perspective, meaning, obviously, you guys -- the industry has North American Q3 price hikes on the table. It seems inventory levels are down. It seems exports have been sort of steadily picking up. So just if you could give me a sense of beyond your planned maintenance, what you guys have baked into those fundamentals for the Q3 guidance.

James R. Fitterling
Chair & CEO

Good morning, Hassan. Happy to walk through that. You know as we look at the outlook of P&SP into the third quarter, I do expect we're going to see prices up in North America. I think we're going to see the $0.02 of margin improvement there. You got a combination of price -- which I think your macro numbers and direction are correct. We do expect and we have in the plan that we expect ethane to be up $0.01 or $0.02 and it is not as instantaneously as we sit here today. But I do expect that it will be. One of the reasons, natural gas and ethane are so low is because you have the Freeport LNG outage due to Hurricane Beryl and that backs up volume here in the Gulf Coast. And that's going to reverse itself. But I think when that happens, our expectation is you'll see ethane pricing move up.

In Europe, we have still positive pro-nap spread, but it's a little bit less than what it was in the second quarter, but it's still very advantageous for us to crack propane. I mentioned cracking light - we cracked light in the quarter, which led to less byproduct sales for cracker byproducts in Europe, but the derivative demand is good. If you look at derivatives, volumes across the board they've been up. Asia was a little bit low in the second quarter, mainly because Asia was pushing a lot of export volumes out, especially in China to get ahead of some tariff barriers. And that kind of caused some congestion over there. I think that's working itself out. And I think we'll see a continued strong export environment out of U.S. Gulf Coast.

And as you mentioned, inventories are low. Right now, inventories are right in line with where they've been historically, and exports are very strong. So, I do think the environment is there for pricing to take hold in the third quarter. I expect the derivative volumes to be strong, we've got advantaged cost positions and operating rates are strong for us. So, I think net-net turnarounds won't be any more than they were in the second quarter. I think you'll see some slight improvement in third quarter.

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Operator

Your next question comes from the line of Vincent Andrews with Morgan Stanley.

Vincent Stephen Andrews
Morgan Stanley, Research Division

Jim, would love to get your sort of high-level thoughts on 2 things that might have opposite reactions. One, it does seem like we're finally going to get into a period where interest rates are going to come down, which I would expect to be broadly positive for your business, particularly your exposure to building and construction. But politically, we may be also reentering a period geopolitically with tariffs and duties and things like that. So I'm wondering if you can compare and contrast sort of what the impact of both of those dynamics could be for Dow as we look into 2025?

James R. Fitterling
Chair & CEO

Happy to do that. On interest rates, we had expected that by this time, we'd probably have seen two or three interest rate cuts in the year. We haven't seen the first part yet.

I do think the expectation is they're coming. If you look at the housing market, I think you're seeing the weight right now of the higher interest rates on housing -- you're seeing it on new builds, you're seeing it on inventories that are stacking up out there and part of it is because people aren't able to qualify for mortgages at these high rates. So I think when we start to see mortgage rates get something with a five handle on it you're going to see a couple of things happen. You're going to see people who financed mortgages at these higher rates of 7 plus percent will get some advantage to do a refinance. We're going to see people who've been sitting on the sidelines with properties they want to sell move in to start to sell them because people can get qualified for the mortgages, and then you're going to start to see building permits increase. In Polyurethanes & Construction Chemicals, when that starts to happen, you get a domino effect that happens. You get both existing home sales and new builds starting to go. That drives volume but then of course anytime you have that, you've got appliances, carpets, all the other things that go on with it. And so that tends to ratchet up pretty quickly. We haven't seen that yet. Obviously, we're managing it closely, but we haven't seen that pick up.

On the geopolitics side, yeah, I think on your view on both sides on the political spectrum, we're expecting a more perplexing tone that we're going to hear a lot from both sides. I would say that the big driver behind that is in many places where a lot of capacity has been building – China is -- there is enough data to suggest that they're being subsidized and those products are getting flooded into other markets. You're starting to see some anti-dumping cases being brought against China and around the world in different areas. And so I think you are going to see activities that are going to try to halt some of that from happening in concert with trying to bring manufacturing back. Today most of the manufacturing reshoring is into Mexico. If you think about it from our perspective, we haven't had time to see the impact from semiconductors and understand new investment that will take a few years to get to market. But I think we're going to see increased growth on a whole host of things.

Most of them in the 45% to 50% range and most of that is what people believe is the amount of subsidy that's going in to those markets today. So we're prepared for whatever case we get, depending on the outcome of the election. And as always, we just have to get in there and make sure that either side understands the supply chain, how product flows and what's important to keep industry moving, not just here but in Europe and around the world.

Operator

Your next question comes from the line of Steve Byrne with Bank of America.

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Stephen V. Byrne
BofA Securities, Research Division

Yes. Thank you. And Jim, if you change your audio in some way, it would really be helpful. We're having a really hard time hearing you. I have a couple of questions regarding your Slide 9. With respect to your Fort Saskatchewan project, the $1 billion EBITDA on a per pound basis, is that comparable to what you would expect mid-cycle for your existing assets, EBITDA per pound for polyethylene? Or is this an expansion? And do you have customer commitments that give you that confidence in that -- in the profitability of that? And maybe just an extension on this that 3 million tons of transform the waste, the incremental EBITDA on that per pound, I think there must be a huge range depending on the type of product there because you have a competitor that has a similar objective and the incremental EBITDA per pound is 3x this. And I would assume that it's relevant to how much is mechanical versus how much is, say, pyrolysis driven? Do you -- can you comment on where do you see the most profitable outlook in your circular plastic platform.

Dow Response

There was a technical difficulty at this time of the Q&A portion of the earnings call where Jim Fitterling's answer was indiscernible. We have included below links to the most recently provided updates on the two topics discussed in the question:

Investor Day comments on our Fort Saskatchewan Project
Press Release on Dow's Acquisition of Circulus

Operator

Your next question comes from the line of David Begleiter with Deutsche Bank.

David L. Begleiter
Deutsche Bank AG, Research Division

Jim, you're run rating at roughly $6 billion of EBITDA. Consensus for next year is $7.3 billion. How much of that earnings ramp is in Dow's control?

James R. Fitterling
Chair & CEO

David, the biggest will be what we see in terms of the durable goods market and the housing market coming back. Plastics right now, P&SP, silicones, and coatings, I think we have a pretty good line of sight. And with Glycol-2 coming back and II&I, we feel good about that. The real question mark will be how quickly does polyurethanes come back, and that's going to be driven by what happens with interest rates and what happens within housing and construction. That's not just here. That's Europe and Asia as well.

Operator

Your next question comes from the line of Jeff Zekauskas with JPMorgan.

Jeffrey John Zekauskas
JPMorgan Chase & Co, Research Division

Maybe a couple of questions for Jeff. Your corporate expense was $30 million this quarter, and you forecast -- $30 million versus $60 million a year ago and you forecast $60 million for the third quarter versus $40 million in the year-ago period. Why that higher increment, why doesn't it stay at the $30 million level? And Second, you've been repurchasing

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shares. And Dow's share price has been pretty flat since its inception as a public company. What criteria will you use to determine whether share repurchase is -- a good use of capital for Dow? How will you judge that?

Jeffrey L. Tate
Chief Financial Officer

Appreciate the questions here. Starting on the corporate side. When we look at the second quarter, you're right, it was slightly lower, more favorable than what we've traditionally had. I would say, as you're thinking about the second half of the year, going to be pretty much in the range of $60 million to $65 million of negative EBITDA, which we've delivered in past times. What we had in the second quarter was we had actually some gains from our insurance operations as well as some lower environmental cost accruals as well. So when you think about the second half of the year, you can expect it to be in that $60 million to $65 million range.

In relation to share repurchases, you're right, we have continued to trend to cover dilution, and that's one of the things from a capital allocation perspective that we've been consistent with. And as we think about the CapEx ramp-up that we have and our commitment to deliver overall 65% more back to our shareholders -- we're going to stay consistent with that at this point because of the cash flow expectations as well as our ability to be able to manage all of those capital allocation priorities.

But we will look at from a criteria perspective, what will give us the greatest return over that time period in comparison to the commitments that we have for our capital allocation prioritization.

Operator

Your next question comes from the line of Mike Sison with Wells Fargo.

Michael Joseph Sison
Wells Fargo Securities, LLC, Research Division

In the first half, your free cash flow didn't generate a lot. Could you give us a feel of how much free cash flow you generate in the second half and maybe for the full year?

James R. Fitterling
Chair & CEO

Jeff, do you want to take that?

Jeffrey L. Tate
Chief Financial Officer

Yes. Mike, thanks for the question. From our perspective, first of all, when you look at the second quarter, we saw some really positive signs, where we delivered over $800 million in cash from operations. Our conversion rate was at 55% and our free cash flow was a positive $109 million. All of those are sequential improvements over what we delivered in the first quarter. So we're really trending well. As we think about the full year, Mike, one of the things that we would expect is from a working capital standpoint, you can expect the use of cash anywhere from the $600 million to $800 million range.

You've seen in our slide deck here, we got some guidance on some of the other key levers related to full-year cash flow. But one of the areas where we're pleased about is our ability and the joint ventures to be able to get greater dividends out of that, which we're focused on moving forward as well as our -- looking at our liquidity right now, we're in a really good position. We've got well over $3 billion of cash and cash equivalents and total liquidity of $13 billion.

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And right now, we don't have any debt maturities of substantive levels until 2027. And the other thing I'd also like to remind you of as well is the fact that over the past several years, DOW has done a solid job of being able to deliver what we like to call unique-to-Dow cash levers of anywhere from $1 billion to $3 billion. And our expectation is that we'll deliver at least $1.5 billion of those levers here in 2024.

Operator

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

Kevin William McCarthy
Vertical Research Partners, LLC

Thank you, and good morning. Can you comment, as you look across your portfolio on the monthly cadence in June as well as your order books in July, were there any businesses that stood out varied versus your prior expectations through that period? And on a related note, can you comment on the Beryl hurricane impact in the third quarter and whether you're expecting that to have a net positive or negative or neutral impact on the quarter.

James R. Fitterling
Chair & CEO

Yes. Kevin, we've seen pretty solid order book at the beginning of every month. I would say as we finished the second quarter you'd see then some softness towards the end of the month. July order book looks pretty solid as we move forward. Hurricane Beryl, we ran most of Freeport through the hurricanes, all the power plants and all the crackers ran through. We obviously had damaged electrical lines and cooling towers and things. But within a week, we were back up. So I expect that it's not going to have a significant impact on volumes. There will be some cost impact to it. We're insured for it. There's a deductible. And I don't remember how much that is, Jeff. $50 million on the deductible.

But Beryl -- Freeport's back up and running. And I'd say that we've gotten most of the issues identified and we're fortunate no impact to our employees or no impact to people other than the normal things that impact their homes, but we jump in and help them out so that they're able to focus on what they need to do.

Operator

Your next question comes from the line of John McNulty with BMO Capital Markets.

John Patrick McNulty
BMO Capital Markets Equity Research

Maybe just a follow-up on Beryl. It didn't hit the way some of the major hurricanes necessarily take down lots of capacity for long periods, but it does look like a lot of assets were taken down, including your own for at least a week or so. Can you speak to what that did to the market for you and in terms of inventory levels and how you're thinking about what that might mean for pricing in the next couple of months or so?

James R. Fitterling
Chair & CEO

Yes. Good question, John. I think it's -- I think you can already see in the market that it's starting to have some impact of firming things up because it happened early in the hurricane cycle in early August or early July is typically not when we would tend to see the first hurricanes come through. We tend to see them more in the August time frame.

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And so I think what you're seeing is that's firming up the sentiment that there will be price increase moves. I think what you're going to see in terms of impacts are going to be different grade by grade so depending on what derivatives are down and what grades are going to become a little bit tighter. And then you've got some planned downtime that's happening on the third quarter as well. So you've got some plan outages for the third quarter. I'd say we're back up and running hard, trying to catch up to those volumes and get customers stock back up at this point.

And there is a little bit of concerns starting to come through the market from customers about being ready for the next impact. Hats off to our team for moving product out in railcars and other areas ahead of it. So we were able to get things positioned to be able to react so that we could keep product moving to customers and we always do a good job of preparing for that and doing things in advance.

Operator

Your next question comes from the line of Josh Spector with UBS.

Joshua David Spector
UBS Investment Bank, Research Division

I was wondering if you could give some early thoughts on fourth quarter. So a couple of quarters ago, you thought that there'd be some maybe unseasonal improvement as volumes improve. As we sit today, would you think about a normal seasonal in fourth quarter, call it, down $100 million, $200 million in EBITDA sequentially? Or are there other factors you call out that would buck that trend?

James R. Fitterling
Chair & CEO

I think plastics is going to continue to see solid volumes and we've got cost advantage. So I think you're going to continue to see plastics deliver through fourth quarter. Silicones is positive. You could see the impact on volumes in the derivatives part. And because we're fully integrated, we have an advantage there. So silicones, I would think is going to hold up well. II&I is going to improve because we've got Glycol-2 back. We've got $75 million of tailwind in the third quarter. I think that will ramp to closer to $90 million for fourth quarter and get up to the $100 million, which is kind of full run rate by first quarter. And so that's good. I think the coatings had a really solid second quarter.

And even though I talked earlier about housing and some of the issues in housing our volumes were very solid there. I think what's working in housing right now is obviously higher-value homes, and some of the big homebuilders you can see are actually delivering pretty good numbers. That tends to go through the contract side of the business. So the contract painters are doing better than say the do-it-yourself business that you would see. And so that's a big chunk of the market, and that's moving positively. We're benefiting from that, and we're also getting some share gains there.

So I think third quarter will continue to be good for coatings, maybe a little bit less than second quarter. The fourth quarter is typically low season for coatings anyway. And that's when we start to get ourselves prepared with maintenance and other activities. So we're ready to run into next year's season. But on those businesses, I would expect you're going to continue to see strength. On polyurethanes and construction chemicals, volumes are improving. You even saw that even with some limitations that we had to turnaround downtime in the quarter. You saw volumes improving. Inventories are well under control. So I think if there are interest rate cuts that happen this quarter and next quarter, you're going to see some positive impact there. And then it will be a question of how much of that will flow to the bottom line.

Operator

Your next question comes from the line of Frank Mitsch with Fermium Research.

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Frank Joseph Mitsch
Fermium Research, LLC

And happy to hear that the sound quality on the answers has gotten materially better. But I believe the first answer that you gave concerned polyethylene, and that came through fairly garbled. So I was just wondering, Jim, since you were very accurate in forecasting the April price increase, obviously, June didn't go through, but I'm curious as to what your thoughts are with respect to July and the third quarter in general in terms of polyethylene pricing and margins? And then also on the Glycol-2 restart, there was an expectation that it would add about $100 million in the third quarter and $100 million in the fourth quarter. You're indicating today that it's $75 million in the third quarter, which makes sense as it ramps up, would you anticipate that $100 million coming through in the fourth quarter?

James R. Fitterling
Chair & CEO

Yes, thanks. They brought me another microphone here. So I'm sorry about if the first question wasn't answered or understood well. On pricing, we've got prices out around the world everywhere except Argentina for July and August. In North America, we've got plus 5 and plus 5 out in the market. That is going to -- you're going to see price stick in the quarter. So price is going to come through.

Now the question is how much of all that comes through. I think what we've put into the estimate is we've put in that we're going to see $0.02 per pound margin improvement. So net of price and as I mentioned, I think ethane costs will come up through the quarter. I think it will come up $0.01 or $0.02 through the quarter, if you look quarter-over-quarter. So I think net of that ethane cost increase, you're going to see a $0.02 per pound margin increase in North America.

I'd say volume on derivatives around the world supports that, inventory levels support that. And I think there's the outside things that we can't predict, like will we have more hurricane activity, but inventories in the chain are low. So I would expect that it's going to go through.

When it comes to Glycol, the start-up was smooth and as expected on Glycol-2. Obviously, we've got to get through the product mix, and we've got to get some safety stocks built back up, and that's part of the ramp-up that happens from $75 million to $90 million to $100 million. Could it ramp up more than $90 million in the fourth quarter, I guess it could. I mean, usually year-end, there's a little bit of seasonal slowness. So our expectation is it would probably ramp more into the first quarter, which is when we tend to get into some higher volumes across some of the markets. But that's what we've got in the estimate right now.

Operator

Your next question comes from the line of Laurence Alexander with Jefferies.

Laurence Alexander
Jefferies LLC, Research Division

I just wanted to follow up on your discussion around potential tariff structures and how they might evolve, how do you think the response function in the industry with your customers has shifted that is if there is movement towards new tariffs, how significant a restock cycle do you see that triggering in advance?

James R. Fitterling
Chair & CEO

I don't think anything has started yet, Laurence, on people doing stocking in advance of tariffs. And I think primarily

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because there's all the uncertainty around the election and what policies are going to actually stick. I think on the same -- by the same token, I think there's a little bit of a view that China doesn't know what it's going to do yet from an incentive standpoint for its own economy until it gets a better feel for what's going to happen with the U.S. presidential election.

We're doing scenario planning here to look at the impact. As I mentioned, there are antidumping activities going on in different parts of the world because of challenges that we see from things being -- volumes being dropped into markets. And so there's a lot of work going on behind the scenes. I think that will -- we'll get a clearer picture for that by the end of the year. But right now, I would say I haven't seen any uptick in volumes or stocking because of that.

Operator

Your next question comes from the line of John Roberts with Mizuho.

John Ezekiel E. Roberts
Mizuho Financial Group, Inc.

Jim or Jeff, I'm looking at Slide 8 in the top exhibit on volumes. You've had relatively easy year-over-year comparisons for the last 3 quarters, and then you have that in the third quarter as well. But the fourth quarter begins, I think, more challenging year-over-year comps. If we have normal seasonality, will the fourth quarter be down in volume?

James R. Fitterling
Chair & CEO

I still think you're going to see strength, John, in plastics. I don't remember if silicones had turnaround time in the fourth quarter last year. It should be up based on the downstream demand forecast that we've seen. Normal seasonality, I would expect out of coatings, but I think in Plastics and Silicone, you're going to see up. And in II&I, because of Industrial Solutions and Glycol-2 being back, you're going to see up, the question mark will be how much do we see in terms of demand uptick on durable goods, and that will be what determines whether PU is up or not.

Operator

Your next question comes from the line of Duffy Fischer with Goldman Sachs.

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

Two questions. First, Jim, you made a comment that you thought your coatings raw material business did quite well in Q2. A lot of the paint companies have come out and their volumes seem weak. So can you just kind of triangulate that? And then for Jeff, the other assets and liabilities on the cash flow statement has eaten almost $1 billion of cash so far this year, which is much higher than normal. What is that? And what happens with that going forward?

James R. Fitterling
Chair & CEO

Yes. Duffy, I'll take coatings. On coatings mix is part of it. So in addition to architectural coatings, where, as I mentioned, I think in the contractor space and with the customers who are in that space, we've done quite well. We also saw traffic paint improvements, and that's been driven by infrastructure projects that have gone along and also continue to see good response on the innovation side there. The team has done a great job of getting their assets running well, had great uptime and I think has been delivering on market share gains across that taking advantage of their good cost position. Jeff, on the cash side?

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Jeffrey L. Tate
Chief Financial Officer

Yes. In terms of other assets and liabilities, you're right. The primary driver there is we had a reduction in long-term tax payables related to some of our tax audit reassessments over the period. As you may recall, even in first quarter, we had a significant item more specific to one of our regions as well. So those things were somewhat unique from that vantage point here. So it should stabilize here moving forward.

Operator

Your next question comes from the line of Patrick Cunningham with Citi.

Patrick David Cunningham
Citigroup Inc., Research Division

I'm just curious on siloxanes pricing in Asia. Would you characterize this as lingering oversupply issues? Or is just the pace of demand recovery not as strong as expected -- and I think there was maybe a bit more confidence on the pricing environment in the second quarter. Did that revert over the past couple of months?

James R. Fitterling
Chair & CEO

Yes. Good question, Patrick. I mentioned on the call, the difference between integrated and nonintegrated players, I think some of the weakness you see in siloxanes in Asia is from the nonintegrated players and as you say, the capacity overhang that is there. Capacity additions have slowed. So we do think we're going to start to see as we move into next year, some pricing improvement on siloxanes. We've been working to make investments in downstream silicone products, which have all been doing well, and we continue to move that way. Really trying to drive that volume growth in those downstream derivatives and sell less into that merchant siloxanes market and more into the downstream derivatives.

And you're seeing that start to come through in the volume in the second quarter. That was one of the big drivers. So that was a big driver, plus the fact that you've seen an improvement in downstream demand in things like consumer electronics. You saw a pretty strong automotive business and still good on the commercial construction side of things, which drives a lot of volume of products. Health and Personal Care has been pretty solid, I'd say we see good volume growth year-over-year, kind of 3%, a little bit more than 3%. Mix is under a little bit of pressure because consumers are trading brands and trading quality maybe a little bit as they're trying to balance their spending at the grocery store and at the pharmacy.

Operator

Your next question comes from the line of Mike Leithead with Barclays.

Michael James Leithead
Barclays Bank PLC, Research Division

Jim, just a bigger-picture question. Dow is obviously investing a lot for medium-term growth. You've laid out a lot of 2025 and 2030 expansion targets. But at the same time, the overall demand backdrop since about mid-'22 has probably been materially worse than you or anybody has thought at that time. So as that timing gap between near-term weakness, medium-term growth sort of closes, I mean 2025 is only 5 months away now. Does that give you any pause at all in some of your investments? Do you need to rethink or pivot any of these expansions and sort of lower for longer economic scenario?

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James R. Fitterling
Chair & CEO

It's a good question, Mike. But I would also ask you to think about it and even a longer-term time frame, it takes years to plan and make these investments. And we have to look at what's happened in plastics take for an example. Since 2019, we've seen a 20% increase in volumes in plastics, you can't obviously respond to the market when you see the increase and start to get this capacity in place. You've got to get in place to take advantage of the mid-cycle and the up-cycle ahead of time.

So typically, when we're at this point in the cycle, it's a common question that everybody asks, but we've got to look through at the long-term trends and the long-term trends for plastics say the growth is going to continue to be there. We've tried to move into the areas where there is differentiation and there's higher growth rates. Whether that's silicones, whether that's plastics, whether that's Industrial Solutions on the higher value of specialty EO derivatives where we're investing. That's where the dollars are going. So those 3 markets are consuming most of your capacity expansion.

What we've been doing in polyurethanes is more rationalizing the footprint around the higher-value markets, more downstream less commodity-like PO, more MDI containing components. And on coatings, obviously, being able to move with the market as the housing market improves. So I feel good about the long-term direction. We're not back at mid-cycle yet. As we get back to mid-cycle, there's a $3 billion step-up in earnings at mid-cycle margins. And then once Path2Zero comes on in the '27, '29 time frame, and you get to peak, there's another $3 billion step-up to peak.

Operator

Your next question comes from the line of Chris Parkinson with Wolfe Research.

Christopher S. Parkinson
Wolfe Research, LLC

Jim, in your $2 billion of mid-cycle upside for P&SP. I understand there are obviously a lot of moving factors there. But if we stick to the U.S. Can you just offer some insights in terms of what you're expecting in terms of integrated PE margins, just given where the current SD dynamic is, export trends, NGLs. Just any color in terms of kind of getting that back would be especially helpful.

James R. Fitterling
Chair & CEO

Yes. So mid-cycle margins typically run in the range of $0.27 globally, but that can run from -- in Europe, maybe $0.20 mid-cycle margins to Americas $0.32. When we've gotten to peak the global average on peak would tend to be more like $0.48. And maybe that range would run from Europe being in the 40 range, 38 to 40 and Americas being as much as 56. So that's kind of what the outlook is.

And of the $2 billion of upside, I'd say some of that is capacity debottlenecking and things that we're adding. So about $800 million of the $2 billion is from additions and tweaking on making some more higher-value products available, like we announced, we've done with elastomers and things in Tarragona. And then the rest of it will come from margin expansion.

Operator

Your next question comes from the line of Aleksey Yefremov with KeyBanc.

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Aleksey V. Yefremov
KeyBanc Capital Markets Inc., Research Division

Jim, looking at ACC numbers, North American polyethylene demand this year is roughly at the same level as in 2018, 2019, do you have any thoughts on this observation? Do you think there's another leg up for U.S. polyethylene demand?

James R. Fitterling
Chair & CEO

I do. I think when we look at North American demand, we're starting to see the total domestic demand plus exports getting north of 5 billion pounds. So this is a step-up. Obviously, exports have been a big driver. Historically, 30% of total demand was export, you're running about 45% of that demand in 2023. Also, I would tend to look at not just U.S. data, but I would also look at Mexico, I mean, we moved product into Mexico the same way we move into the U.S. market.

And as I mentioned, one of the biggest consumption increases has been in Mexico with manufacturing reshoring moving into that area. So I think we're seeing good volumes this year in the U.S. I think we're going to continue to see that improve at a steady rate.

Andrew Riker

Yes. Thank you, everyone, for joining our call, and we appreciate your interest in Dow. Also we understand there were some technical issues and audio issues to start at the early part of the Q&A. We do apologize for this. As a reminder, we do post a transcript to our investor website, and we'll do so as quickly as possible today to make sure everything is addressed. This concludes our call. Thank you for your time, and thank you for your interest in Dow.

Operator

This concludes today's conference call. Thank you for your participation, and you may now disconnect.

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