

Dow Inc.: Cost Discipline and the Path2Zero Commitment

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A capital allocation decision

On the morning of January 30, 2025, Dow announced a new \$1 billion cost-savings program. The announcement came as the company reported lower full-year sales and operating earnings, weak fourth-quarter margins in its largest segment, and sharply lower operating cash flow than the prior year. At the same time, Dow had already approved and begun construction on Path2Zero, a multiyear expansion and decarbonization project in Fort Saskatchewan, Alberta.

For this case, assume a **hypothetical strategy and capital-allocation team** has been asked to recommend how Dow should balance the new cost actions with the project's next stages. The team must advise whether to preserve the announced project schedule, stage or defer some remaining discretionary spending while keeping the project option alive, or reduce scope and redirect capital. The assignment is to recommend a decision rule and the information needed at the next project review. This case does not report an actual internal deliberation.

The decision is harder than choosing whether to approve a new project. Dow's board approved Path2Zero in November 2023, and construction had begun by the second quarter of 2024. Some capital had already been spent or committed. Public materials do not disclose how much future spend remains cancellable, what a pause would cost, or how long the schedule could move without affecting partners and customers.

A weak operating environment, with mixed signals

Dow reported 2024 net sales of \$42.964 billion, compared with \$44.622 billion in 2023. Operating EBIT, a company-defined non-GAAP measure, was \$2.588 billion, down from \$2.778 billion. Fourth-quarter net sales were \$10.405 billion and the company reported a GAAP net loss of \$35 million. Fourth-quarter Operating EBIT was \$454 million, with an Operating EBIT margin of 4.4%, 90 basis points below the year-earlier quarter.

The pressure was concentrated in part in Packaging & Specialty Plastics, Dow's largest segment. Fourth-quarter segment sales were \$5.315 billion, down 6% year over year, and segment Operating EBIT was \$447 million, down \$217 million. Dow attributed the decline to lower integrated margins, licensing revenue, and equity earnings. Lower polyethylene prices and demand variation across products and regions contributed to the sales change.

The cash picture was also mixed. Cash provided by operating activities from continuing operations was \$2.903 billion in 2024, compared with \$5.164 billion in 2023. Capital expenditures were \$2.940 billion, compared with \$2.356 billion. Dow defines Free Cash Flow as

continuing-operations operating cash flow less capital expenditures; on that definition, 2024 Free Cash Flow was negative \$37 million. In the fourth quarter, operating cash flow was \$811 million, down \$817 million year over year. Dow said much of this quarterly difference reflected a prior-year working-capital release from destocking.

These figures raise a question about the nature of the downturn. Is Dow experiencing a difficult but temporary cycle that makes it especially important to preserve advantaged assets and prepare for recovery? Or are current margins and capacity conditions a sign that projected demand and returns need to be reassessed? The reported cash figures alone do not resolve the question: working capital moved substantially, and the release does not separate maintenance capital expenditure from growth investment.

Exhibit 1. Selected financial data

\$ millions, except percentages	Q4 2024	Q4 2023	FY2024	FY2023
Net sales	10,405	10,621	42,964	44,622
GAAP net income (loss)	(35)	(95)	1,201	660
Operating EBIT ¹	454	559	2,588	2,778
Operating EBIT margin ¹	4.4%	5.3%	-	-
Operating EBITDA ¹	1,205	1,216	5,482	5,389
Operating cash flow, continuing operations	811	1,628	2,903	5,164
Capital expenditures	767	758	2,940	2,356
Free Cash Flow ¹	44	870	(37)	2,808

¹ Operating EBIT, Operating EBITDA, and Free Cash Flow are non-GAAP measures defined by Dow. Free Cash Flow equals continuing-operations operating cash flow less capital expenditures. Q4 release figures and unaudited full-year financial schedules were reported January 30, 2025. Source: [Dow Q4 2024 results, Form 8-K Exhibit 99.1](#), especially pp. 1, 8, 10, 14.

The new cost program

Dow's board approved targeted actions on January 27, announced publicly on January 30. The company said the actions were intended to deliver \$1 billion in annual run-rate savings. It expected \$500 million to \$700 million of the reductions to come from direct costs, primarily purchased services and third-party contract labor. The plan also included a global workforce reduction of approximately 1,500 roles.

Dow estimated charges of \$250 million to \$325 million in the first quarter of 2025, primarily for severance and related benefits. It expected \$20 million to \$30 million of implementation costs, expensed as incurred. The savings were targets, not realized cash. Their timing and effect on operations were not yet known. Management said it would continue to evaluate options to reinforce competitiveness and could take further action if needed.

The cost program followed earlier efforts to improve costs and asset utilization. Dow had also announced a strategic review of selected European assets in October 2024. Further changes could improve resilience if demand stayed weak. They could also reduce operating capacity, expertise, or service levels that the company may need as markets recover. The January announcement did not identify the business units or roles affected.

Path2Zero: large, long-term, and already underway

Path2Zero is Dow's planned brownfield expansion and decarbonization project at Fort Saskatchewan. Dow's board approved a final investment decision in November 2023. The company described two phases: approximately 1,285 thousand metric tons per year of additional ethylene and polyethylene capacity in phase one, expected to start in 2027, and approximately 600 thousand metric tons per year in phase two, expected to start in 2029. Construction began in 2024.

In May 2024, Dow described estimated total project capital expenditure of approximately \$6.5 billion and net cash deployment of approximately \$5 billion after incentives. It projected about \$1 billion of annual EBITDA at full run rates by 2030 and presented a targeted return above 13%; another slide compared the target with the company's TX-9 project, which Dow said had delivered more than 15% return on invested capital since startup. Dow said Alberta's natural gas and ethane supply, existing site infrastructure, project scale, and partnerships would support the project's economics. It also said the project would decarbonize about 20% of Dow's global ethylene capacity and reach net-zero Scope 1 and 2 emissions when complete.

These are company estimates and targets, not achieved results. The economics depend on construction and startup, feedstock and product spreads, utilization, incentives, carbon capture and hydrogen infrastructure, customer demand, and commercialization of lower-emissions products. The public materials reviewed for this case do not establish customer premiums or demand sufficient to support the projected earnings. Nor do they disclose the amount of future project spend that remains uncommitted or reversible.

The project also sits in a changing competitive landscape. In June 2024, ExxonMobil and Air Liquide announced an agreement supporting a proposed low-carbon hydrogen and ammonia project at ExxonMobil's Baytown facility. The project's final investment decision remained subject to policy support and permits. Its product mix differs from Dow's ethylene and polyethylene project, but it signals that other major producers are building partnerships around lower-carbon chemicals and infrastructure.

Exhibit 2. Path2Zero as described by Dow

Measure	Company statement by May 2024
Board decision	Final investment decision approved November 2023
Planned capacity	Phase 1: ~1,285 KTA; Phase 2: ~600 KTA
Planned start-up	Phase 1: 2027; Phase 2: 2029
Estimated total capital expenditure	~\$6.5 billion
Estimated net cash deployment after incentives	~\$5 billion

Measure	Company statement by May 2024
Projected annual EBITDA at full run rate	~\$1 billion by 2030
Dow-stated targeted return	>13%; project materials also compare with TX-9's >15% return since startup
Construction status	Construction began in 2024

KTA = thousand metric tons per year. All economics, timing, returns, and emissions statements above are Dow projections or targets. Sources: [Dow's final investment decision announcement](#) and [May 2024 Investor Day materials filed with the SEC](#), Path2Zero and capital-allocation slides.

What should the team recommend?

The team must decide how to protect financial resilience without losing valuable future choices. Preserving the schedule may capture scale, customer and partner commitments, operating learning, and the benefits Dow expects from Alberta's feedstock position. Staging or deferring some future spend could provide time for market and project information to improve while preserving the option to continue. Reducing scope could release capital, but might impair integration, emissions performance, or project economics. Each alternative carries unknown costs and dependencies.

The decision should be made on the next avoidable dollar and milestone, not on the headline project cost alone. The \$6.5 billion estimate includes capital already spent or committed; the sources do not say how much can still be avoided. A pause is not costless by default. It may trigger contract, labor, restart, schedule, infrastructure, or customer consequences. Continuing is not costless either: it uses capital and assumes future market conditions will support the project's forecasts.

Assignment

Prepare a short recommendation for the hypothetical strategy and capital-allocation team.

1. Should Dow preserve Path2Zero's announced schedule, stage or defer some remaining discretionary spending, or reduce scope? Explain the conditions behind your choice.
2. How should Dow implement the \$1 billion cost program while protecting safety, reliability, customer service, and critical capabilities?
3. Which three pieces of information would most change your recommendation? Identify what Dow should measure before the next project commitment.
4. If you use a financial model, separate reported facts from assumptions. State how your recommendation changes under a weaker and a stronger demand/margin outlook. Do not assume all project capital remains avoidable.

Sources available at the cutoff

- [Dow Q4 2024 results, Form 8-K Exhibit 99.1](#), filed January 30, 2025.
- [Dow cost-reduction actions, Form 8-K](#), filed January 30, 2025.
- [Dow 2024 Investor Day presentation](#), May 16, 2024.

- Dow Path2Zero final investment decision announcement, November 28, 2023.
- ExxonMobil-Air Liquide Baytown announcement, June 24, 2024.

Case information cutoff: January 30, 2025, 06:15:36 ET. Dow's earnings call was scheduled for 08:00 ET and is not included. No information published after the cutoff is part of the case.