

COMPANY PROFILE

# The Dow Chemical Company

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**TABLE OF CONTENTS**

**Company Overview ..... 3**  
**Key Facts ..... 3**  
**SWOT Analysis ..... 4**

## COMPANY OVERVIEW

The Dow Chemical Company (Dow or 'the company') is engaged in providing a portfolio of specialty chemical, advanced materials, agro-sciences and plastics businesses. The company manufactures and supplies products which primarily used as raw materials in the manufacture of customer products and services. It also offers solutions for coating materials, building insulation and water treatments. The company primarily operates in the US, Europe, Middle East, India and Africa. Dow is headquartered in Midland, Michigan, the US.

The company reported revenues of (US Dollars) US\$48,158 million for the fiscal year ended December 2016 (FY2016), a decrease of 1.3% over FY2015. In FY2016, the company's operating margin was 9.8%, compared to an operating margin of 20.8% in FY2015. In FY2016, the company recorded a net margin of 9%, compared to a net margin of 15.8% in FY2015.

The company reported revenues of US\$13,834 million for the second quarter ended June 2017, an increase of 4.6% over the previous quarter.

## KEY FACTS

<b>Head Office</b>	The Dow Chemical Company 2030 Dow Ctr Midland Michigan Midland Michigan USA
<b>Phone</b>	1 989 6361000
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<b>Web Address</b>	<a href="http://www.dow.com">www.dow.com</a>
<b>Revenue / turnover (USD Mn)</b>	48,158.0
<b>Financial Year End</b>	December
<b>Employees</b>	55,000
<b>New York Stock Exchange Ticker</b>	DOW

## SWOT ANALYSIS

The Dow Chemical Company (Dow or 'the company') is engaged in providing a portfolio of specialty chemical, advanced materials, agro-sciences and plastics businesses. It also provides coatings and infrastructure solutions, and manufactures electronic and functional materials. The company's varied businesses and geographically diversified revenue stream help it offset negative trends in a particular business or geography. However, intense competition could affect the company's results of operations.

<p><b>Strength</b></p> <p>Varied businesses from specialty chemicals to agrochemicals and geographically diversified revenue stream Strategic joint ventures</p>	<p><b>Weakness</b></p> <p>Involvement in legal tangles</p>
<p><b>Opportunity</b></p> <p>Strategic joint ventures and partnerships Restructuring of Dow Corning Corporation Favorable trends in global specialty chemicals market Dow's Merger with DuPont</p>	<p><b>Threat</b></p> <p>Environment compliance costs Stringent regulations Intense competition</p>

### Strength

Varied businesses from specialty chemicals to agrochemicals and geographically diversified revenue stream

Dow's diversified portfolio of specialty chemical, advanced materials, agrosiences, and plastics businesses deliver a broad range of technology-based products and solutions to customers in approximately 175 countries and in high growth sectors such as packaging, electronics, water, coatings and agriculture. The diversified product portfolio results in the different revenue streams as well. For instance, in FY2016, Dow's largest business segment, performance plastics contributed 38.2% of its total revenues followed by performance material and chemicals (19.2%); infra-structure solutions (17.9%); agricultural sciences (12.8%); consumer solutions (11.3%). This signifies that Dow does not depend upon any single business.

The company has vertically integrated manufacturing operations across the globe. Basic raw materials are processed through many stages to produce a number of products that are sold as finished goods at various points in those processes. Moreover, Dow's revenue streams are geographically diversified as well. In FY2016, the US, the company's domestic and single largest geographic market, accounted for 34.5% of its total revenues, followed by EMEA (30.5%) and rest of world (35%). A geographically diversified revenue base protects the company from fall in demand in any one country and reduces its business risk. Also, Dow, with its varied businesses, can reach out to a larger base of customers and in

turn increase sales.

### Strategic joint ventures

Dow has formed several strategic joint ventures (JV) with some of the leading global companies. The company owns 42.5% of EQUATE Petrochemicals Company (EQUATE), a Kuwait-based manufacturer of ethylene, polyethylene and ethylene glycol. The Kuwait Olefins Company, a Kuwait-based company that manufactures ethylene and ethylene glycol; is also owned 42.5% by the company. Moreover, the joint ventures also includes Map Ta Phut Olefins Company Limited, effective ownership is 32.77% of which the company directly owns 20.27% (aligned with performance materials and chemicals) and indirectly owns 12.5% through its equity interest in Siam Polyethylene Company Limited and Siam Synthetic Latex Company Limited (both part of The SCG-Dow Group and aligned with Performance Plastics); and Sadara Chemical Company, a development-stage Saudi Arabian company that will manufacture chlorine, ethylene and propylene for internal consumption and will produce and sell high-value added chemical products and performance plastics; owned 35% by the company. These joint ventures will help the company in increasing its market share and revenues.

## Weakness

### Involvement in legal tangles

Dow is involved in several lawsuits. Negative outcomes in these legal proceedings could affect the company's operating results. For instance, Union Carbide is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past four decades. At December 31, 2016, Union Carbide's asbestos-related liability for pending and future claims was \$1,490 million and its receivable for insurance recoveries related to the asbestos liability was \$10 million. Also, Union Carbide also had receivables of \$41 million for insurance recoveries for defense and resolution costs. It is the opinion of the company's management that it is reasonably possible that the cost of Union Carbide disposing of its asbestos-related claims, including future defense costs, could have a material impact on the company's results of operations and cash flows for a particular period and on the consolidated financial position of the company. Such lawsuits affect the financials of the company and hamper its image in the market.

## Opportunity

### Strategic joint ventures and partnerships

Dow entered into various joint ventures and collaboration partnerships during the year. For instance, in April 2016, Dow and Russell Brands collaborated to provide advanced odor and freshness protection to apparel performance products using Dow's patented SILVADUR technology. The products treated with this technology will feature the Intellifresh brand. The collaboration with Russell is among Dow's first uses of the Intellifresh brand on performance apparel products. The collaboration with Russell is a prime example of how Dow, with its innovative technology behind Intellifresh, can partner with brand owners, manufacturers and retailers to fulfill consumer needs. The Russell COOLFORCE tee, powered by

Intellifresh, is the most recent performance apparel product to incorporate this invisible ingredient that provides built in freshness and odor protection. The secret to the long-lasting freshness comes from Dow's patented SILVADUR technology, which neutralizes bacteria that can build up on fabric surfaces so fabrics stay fresher longer, even between washings.

Earlier, Dow finalized the transaction to sell its ownership interest in MEGlobal to EQUATE Petrochemical Company and received \$1.5 billion in pre-tax proceeds. Dow had previously announced its intent to optimize its ownership in its Kuwaiti Joint Ventures and the closure of this transaction represents progress toward delivering this commitment. MEGlobal is a world leader in the manufacture and marketing of monoethylene glycol and diethylene glycol (EG), and is headquartered in Dubai. MEGlobal currently markets over 2.5 million metric tons of EG per year globally, which is used as a raw material in the manufacture of polyester fibers (clothing and other textiles), polyethylene terephthalate (PET) resins, antifreeze formulations and other industrial products. MEGlobal is a joint venture between Dow and Petrochemical Industries Company (PIC) of Kuwait. Through its ownership interest in EQUATE, Dow retains a 42.5% ownership stake in MEGlobal. These collaborations and joint ventures will leverage the significant benefits of its business segments and thereby strengthens Dow's position in the market.

### Restructuring of Dow Corning Corporation

During June 2016, Dow completed the transaction to restructure the ownership of Dow Corning. Dow is now 100% owner of Dow Corning's silicones business, which had 2015 revenues of greater than \$4.5 billion and is expected to generate more than \$1 billion of annual earnings before interest, taxes, depreciation, and amortization (EBITDA) for Dow at full run-rate synergies. The transaction highlights the unique value creation to Dow shareholders from acquiring 50% of the silicones business while benefiting from 100% of the synergies. The highly synergistic transaction extends Dow's participation in its consumer solutions and infrastructure solutions segments, providing immediate integration into Dow's monomer and polymer value chains. It also enables Dow to provide complementary technology offerings in attractive industry segments where Dow is already a leader, such as building and construction, consumer care, transportation, packaging, and electronics. Dow is positioned to capture a minimum of \$400 million in annual cost and growth synergies from the restructured ownership.

Thus, the restructuring of Dow Corning would add significant value to Dow's silicones technology platform.

### Favorable trends in global specialty chemicals market

The global specialty chemical market is forecast to have a strong growth. According to a MarketLine report, the global specialty chemicals market grew by 5.2% in 2015 to reach a value of \$936.1 billion. Further, MarketLine estimates the global specialty chemicals market to grow consistently and record a value of \$1,116.3 billion in 2020, an increase of 19.2% since 2015. The growth is primarily due to an increase in the demand for specialty chemicals such as construction chemicals, pesticides, oilfield chemicals, mining chemicals and others from Asia-Pacific region. Moreover, growth is expected to be partly driven by turnaround in these key markets and the increasing need for specialty chemicals for these functions.

The growth of the global chemicals market is likely to help Dow generate incremental revenues.

### Dow's Merger with DuPont

Dow strengthens its market value through its merger agreement with DuPont. In August 2017, the company and E. I. du Pont de Nemours and Company (DuPont) completed the merger of two companies and formed a combined entity under the name DowDuPont. The companies intend to subsequently pursue a separation of DowDuPont into three independent, publicly traded companies, including a leading global pure-play agriculture company, a leading global pure-play material science company and a leading technology and innovation-driven specialty products company. The merger transaction is estimated to create cost synergies of approximately US\$3 billion, which is projected to create approximately US\$30 billion market value. The company also expects to achieve approximately US\$1 billion in growth synergies. The combined market capitalization is expected to be approximately US\$130 billion.

## **Threat**

### Environment compliance costs

Dow faces several federal, state, local, and foreign laws, regulations, rules, and ordinances. These are related to pollution and protection of the environment. These also include the generation, storage, handling, transportation, treatment, disposal, and remediation of hazardous substances and waste materials. As of December 31, 2016, the company had accrued obligations of \$909 million for probable environmental remediation and restoration costs, including \$74 million for the remediation of superfund sites.

Costs and capital expenditures relating to environmental matters are subject to evolving regulatory requirements and depend on the timing of the promulgation and enforcement of specific standards which impose the requirements. Moreover, changes in environmental regulations could inhibit or interrupt the company's operations, or require modifications to its facilities. Accordingly, environmental regulatory matters could result in significant unanticipated costs or liabilities.

### Stringent regulations

The company faces strict regulations from the local, state, and federal governments where it has operations. Growing public and political attention has been placed on protecting critical infrastructure, including the chemical industry, from security threats. In addition, local, state, and federal governments continue to propose new regulations related to the security of chemical plant locations and the transportation of hazardous chemicals, which could result in higher operating costs and interruptions in normal business operations.

These regulations could in turn have a negative impact on the company's profitability.

### Intense competition

Dow faces intense competition from various energy players. In addition to other chemical companies, the chemical divisions of major international oil companies provide substantial competition. Dow competes

## The Dow Chemical Company

### SWOT Analysis



worldwide on the basis of quality, price and customer service. Some of the company's competitors include Akzo Nobel, Bayer, BASF, Monsanto, Syngenta, Arch Chemicals, and Cabot Corporation.

Increased levels of competition could result in lower prices or lower sales volume, which would have a negative impact on the company's results of operations.



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