Dow Chemical Reports a Profit, Dividend Increase

Company's Better-Than-Expected Results Come Amid Battle with Activist Investor Daniel Loeb

By Ben Lefebvre, The Wall Street Journal

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DOW swung to a profit for the fourth quarter and announced plans for a dividend increase as Chief Executive Andrew Liveris told investors Wednesday that sales of paints and plastics have taken off as the economy improved.

"The U.S. is the world's bright spot and could create a catalyst for global economic growth this year," Mr. Liveris said in an interview. "Now we can start being confident in future earnings."

The Midland, Mich.-based company's quarterly profit of $1 billion, or 79 cents a share, solidly topped analysts' expectations, bringing it back into the black after a year-earlier loss of $631 million, or 61 cents a share. Dow also disclosed plans to triple its stock buyback authorization to $4.5 billion and boost the quarterly dividend by 15% to 37 cents.

An improving U.S. economy drove revenues 3.4% higher to $14.4 billion in the fourth quarter as Dow sold more paints used in construction projects and high-end plastics used in smartphones and other gadgets. The uptick comes after years of sluggish sales as the global economy limped along.

For all of 2013, Dow earned $4.8 billion on revenues of $57 billion, four times its profit on nearly the same sales in 2012. About $2.2 billion of this year's profit came from Petrochemicals Industries Co. of Kuwait as payment for the Middle Eastern company's cancellation of a joint venture.

The company's U.S. plants that run on natural gas also greatly benefited last year from lower fuel prices, keeping a lid on costs. Additionally, Dow reported making more than its targeted $500 million in cost cuts.

"We exceeded our goals in 2013 despite the challenging market conditions that existed throughout the year, and this is clear evidence of our ability to manage all aspects of our integrated business to generate strong financial performance in an uncertain world," Mr. Liveris said.

Dow's positive earnings may give it a brief respite from criticism leveled by Third Point LLC, a private-equity fund run by activist investor Daniel Loeb, who unveiled a $1.3 billion stake in the company earlier this month. Mr. Loeb is pushing Dow, the second-largest chemical producer by sales after Germany's BASF SE, to spin its specialty chemicals business off into a separate company.

That unit turns oil and natural gas into chemicals and plastics used in food packaging, agriculture and electronics, and breaking it off from Dow is a move Mr. Liveris opposes. He said Dow's current strategy has the backing of Warren Buffett, whose Berkshire Hathaway Inc. bought $3 billion of preferred Dow stock in 2009.

"He basically said to me…keep doing what you're doing," Mr. Liveris told CNBC during an interview on Wednesday.

Mr. Buffett couldn't be immediately released for comment.

The bulk of Third Point's proposed spinoff would come from Dow's agricultural chemicals segment, which increased sales by 13% year-over-year to $1.8 billion. Also on the chopping block would be operations Dow acquired as part of its $16 billion takeover of Rohm & Haas in 2009.

The fund's strategy goes further than Dow's stated plan of exiting a number of its low-margin chemical businesses. Third Point has argued that an outright split would make each business more efficient and yield higher returns for investors.

The company's plan to increase dividends and share buybacks is a step in the right direction, but Dow still needs to rid itself of some units to increase value, a person familiar with Third Point's strategy said.

Investors aren't guaranteed to benefit from breaking the company apart, according to Peter Young, partner at Young & Partners LLC, an analyst firm specializing in chemical companies. Profit margins for specialty chemicals have come off their highs in recent years, giving an advantage to companies that can make both high-end and commodity chemicals, he said.

"If you made Dow into two pure plays, you would destroy value," Mr. Young said.

Dow isn't the only chemical company to have its strategy questioned by investors in recent months. Nelson Peltz's Trian Fund Management LP took a $1.3 billion stake in DuPont Co. last summer, advocating that the company focus on higher margin businesses like biosciences. In October, DuPont announced it would spin off one of its older but less profitable divisions, the performance-chemicals unit.

—Tess Stynes contributed to this article.

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