

THOMSON REUTERS

EDITED TRANSCRIPT

Q1 2018 DowDuPont Inc Earnings Call

EVENT DATE/TIME: MAY 03, 2018 / 12:00PM GMT



CORPORATE PARTICIPANTS

Andrew N. Liveris *DowDuPont Inc. - Director*
Edward D. Breen *DowDuPont Inc. - CEO & Director*
Gregory R. Friedman *DowDuPont Inc. - VP of IR*
Howard I. Ungerleider *DowDuPont Inc. - CFO*
James C. Collins *DowDuPont Inc. - COO of Agriculture Division*
James R. Fitterling *DowDuPont Inc. - COO for the Materials Science Division*
Neal Sheorey *DowDuPont Inc. - VP of IR*

CONFERENCE CALL PARTICIPANTS

Arun Shankar Viswanathan *RBC Capital Markets, LLC, Research Division - Analyst*
Christopher S. Parkinson *Crédit Suisse AG, Research Division - Director of Equity Research*
David L. Begleiter *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*
Frank Joseph Mitsch *Wells Fargo Securities, LLC, Research Division - MD & Senior Chemicals Analyst*
Hassan Ijaz Ahmed *Alembic Global Advisors - Partner & Head of Research*
Jeffrey John Zekauskas *JP Morgan Chase & Co, Research Division - Senior Analyst*
John Ezekiel E. Roberts *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*
Jonas I. Oxgaard *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*
Kevin William McCarthy *Vertical Research Partners, LLC - Partner*
P.J. Juvekar *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*
Peter Butler
Steve Byrne *BofA Merrill Lynch, Research Division - Director of Equity Research*
Vincent Stephen Andrews *Morgan Stanley, Research Division - MD*

PRESENTATION

Operator

Good day, and welcome to DowDuPont's First Quarter 2018 Earnings Call. (Operator Instructions) Also today's call is being recorded. I would now like to turn the call over to Greg Friedman, Vice President, Investor Relations. Please go ahead, sir.

Gregory R. Friedman *DowDuPont Inc. - VP of IR*

Good morning, everyone. Thank you for joining us for our first quarter 2018 earnings call. DowDuPont is making this call available to investors and media via webcast.

We have prepared slides to supplement our comments on this call. These slides are posted on the Investor Relations section of DowDuPont's website and through the link to our webcast.

Speaking on this call today are Ed Breen, Chief Executive Officer; and Howard Ungerleider, Chief Financial Officer. Also with us in the room for Q&A are Andrew Liveris, Director and former Executive Chairman; Jim Fitterling, Jim Collins and Marc Doyle, Chief Operating Officers for DowDuPont's Materials Science, Agriculture and Specialty Products Divisions, respectively; and Neal Sheorey, Vice President of Investor Relations.

Please read the forward-looking statement disclaimers contained in the news release and slides. During the 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 risk and uncertainty, our actual performance and results may differ materially from our forward-looking statements. Our 10-K and each of Dow's and DuPont's, include a detailed discussion of principal risks and uncertainties, which may cause such differences.

Also, we will comment on segment results on a divisional basis. So please take note of the divisional disclaimer in our earnings release and slides.

Unless otherwise specified, all historical financial measures presented today are on a pro forma basis, and all financials, where applicable, exclude significant items. We will also refer to non-GAAP measures. A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release and on our website.



I will now turn the call over to Ed.

Edward D. Breen *DowDuPont Inc. - CEO & Director*

Thanks, Greg, and thanks, everyone, for joining the DowDuPont first quarter earnings call. I'll start by covering the financial highlights. Then I'll provide an update on our progress toward the key strategic drivers: the synergies, our growth plans and intended spins. I'll then hand it over to Howard to discuss the quarterly results in more detail.

This past quarter marked the second full quarter of operations for DowDuPont, and the teams have come together well, and they again delivered strong results.

As shown on Slide 4, here are the first quarter highlights. Sales increased 5% to \$21.5 billion. Price rose 3%, with gains in all geographies and most segments. Operating EBITDA increased 6%, and we grew our adjusted operating EPS 7%.

Our results this quarter were due to strong performance from the Materials Science and Specialty Products divisions. Their growth more than overcame severe cold weather in the Northern Hemisphere, which shifted Ag shipments from the first quarter to the second quarter.

Our performance in the quarter was driven by solid execution, disciplined price/volume management, cost synergies, growth projects and contributions from our value-added customer-driven innovations.

In Materials Science, the division benefited from strong innovation and product launches and from broad-based price and volume gains supported by new capacity in the U.S. and the Middle East. A few examples of product innovations in the quarter include Packaging and Specialty Plastics launched a new Bynel tie layer developed to provide improved adhesion between polyolefins and PET and polyamide materials in food and specialty packaging films. Polyurethanes introduced a new VORATEC Appliance Insulation System with a major appliance manufacturer, which provides superior energy efficiency. And in Consumer Solutions, we introduced AgeCap smooth cosmetic ingredient, which softens the appearance of wrinkles while promoting skin glow and softness.

In Specialty Products, our innovation machine continues to produce numerous product line extensions that support strong top line growth. For example, Intexar added flexible heat in garments for athletes while Gelcarin excipients made pills more palatable. A new Hytrel product made turbo gas air ducts flexible and lightweight while the new Nomex Nano aramid reduced the weight and bulk of firefighter gear.

In Ag, our combined industry-leading pipeline is poised to deliver. Our near-term pipeline is expected to continue to launch new products through the end of the year. This pipeline is expected to deliver stronger growth in the second half of the year from new products like Zorvec, Vessarya and Arylex, which combined, will contribute greater than \$1 billion of peak sales.

Another highlight for the quarter was our progress on cost synergies. We generated savings of more than \$300 million in the quarter, once again ahead of our target. Based on this progress, we now expect to realize year-over-year cost synergy savings of \$1.2 billion, an increase of 20% from our prior target of \$1 billion, with the majority of the increase being realized in the first half.

Further, we are also raising our year 1 run rate forecast to 75% of our recently increased \$3.3 billion target. We remain very confident in our ability to hit the higher \$3.3 billion run rate by the end of year too.

We also continue to advance our work on growth synergies across the company. We continue to expect to deliver growth synergies totaling \$1 billion of EBITDA over the next few years.

On Slide 5, I want to share several updates on the growth potential we still see in front of us. During the quarter, we advanced our plans to deliver approximately half of the growth synergies from the Ag division.

In addition to increased market access for our broadened set of products, we are also driving opportunities to expand our portfolio



through actions such as enhancing our seed treatment offerings by leveraging a larger proprietary portfolio of crop protection actives. Additionally, we are establishing new business models by executing on plans to rebuild our share lost through divestments with actions such as establishing Brevant, our new global retail seed brand.

In Materials Science, the integration of DuPont's ethylene copolymers affords us the opportunity to provide a one-stop shop for our packaging customers with the broadest suite of differentiated polyethylene offerings across virtually all food, specialty and consumer packaging applications. We also see strong potential to expand our growth in polymer modifiers in infrastructure, enhancing resiliency and durability. And we will improve our solutions across a range of consumer applications from footwear to cosmetics, where Dow technologies and DuPont copolymers together will improve multiple aspects of performance and comfort, ultimately advancing our leadership position in these markets.

We also laid out plans for specific growth synergies in Specialty Products, which we expect to total \$400 million. We're encouraged by the fact that we already are seeing benefits in areas like electronics, where we are building deeper relationships with customers that overlap in the semiconductor and interconnect solutions businesses. As we look ahead, we will be taking advantage of cross-selling and new product development opportunities in construction and filtration as well as automotive, electronics and medical. And we'll leverage key account management and channel access in food and pharma, to name a few.

Now I'll provide an update on our progress with standing and spinning the intended companies as presented on Slide 6. We continue to anticipate Materials Science separating by the end of the first quarter of 2019 followed by Agriculture and Specialty Products separating shortly after that, by June 1 of '19. The objectives for us between now and the fall include assigning assets and liabilities to each intended company; negotiating terms of the necessary agreements among the 3 intended companies; and completing IT system design, testing and implementation. We have been doing a lot of work in this area, and we remain on track.

We continue to make progress on setting up the capital structure of each company. This work includes the separation of heritage DuPont assets and liabilities into Agriculture and Specialty Products, the movement of Dow AgroSciences into Agriculture and any other adjustments prompted by the portfolio realignment we announced last year.

Talent selection is substantially complete. Our employees know which intended company they are aligned to and are focused on delivering results.

In summary, our businesses are performing well. We're executing against our financial and operational commitments. We are excited about our cost savings delivery and growth synergy potential. And we are pleased with the team's progress as we move toward the intended separations.

Finally, I want to address something that is important to me on a personal level. I want to be clear that I intend to be around through the intended spins and beyond. I am committed to making sure the 3 intended companies are properly launched, and I plan to be actively involved after the final separations. There's a lot of value to be created for our shareholders, and my personal goal is to see it through.

With that, let me turn it over to Howard to review our financial results in further detail.

Howard I. Ungerleider *DowDuPont Inc. - CFO*

Thanks, Ed. Moving to Slide 7 and a summary of our first quarter results. We once again grew earnings per share, net sales and EBITDA. Drivers of the EPS increase include local price and volume gains in Materials Science and Specialty Products, cost synergies, a currency tailwind, higher equity earnings and lower pension OPEB costs. These gains more than offset the weather-related shift we saw in Agriculture, higher feedstock costs and the impact of the freeze-related outages on the U.S. Gulf Coast.

The sales increase of 5% was broad-based, with growth in most operating segments and geographies. Sales rose 15%, excluding Ag, with double-digit gains in both Materials Science, up 17% and Specialty Products, up 11%. The sales decline in Agriculture was driven by weather-related delays to planting seasons in the Northern Hemisphere and Brazil. Overall, volume declined 2% driven by the decline in Ag. Materials Science achieved 14% volume growth in Industrial Intermediates & Infrastructure and 8% growth in Packaging & Specialty



Plastics in spite of weather-related supply disruptions enabled by new capacity ads from Sadara and on the U.S. Gulf Coast.

Specialty Products delivered volume gains in all segments on solid customer demand in 4 market verticals, which more than offset weather-related shifts in demand, particularly aligned to construction end markets.

Local price increased 3% led by Materials Science, which was up 5 on strong supply-demand fundamentals across most of its targeted end markets. Equity earnings increased led by improved Sadara results and increased earnings from the Kuwait joint ventures.

And the cost synergies continue to hit the bottom line as we have now delivered more than \$500 million of cumulative savings since merger close. These gains translated to operating EBITDA of \$4.9 billion in the quarter. Excluding Ag, operating EBITDA increased 26% year-over-year, with double-digit gains in both Materials Science and Specialty Products.

Our cash flow from operations was down, primarily due to higher integration and separation costs spending and a onetime tax payment. The underlying cash from operations of our businesses improved versus the same quarter last year. And from an efficiency perspective, we are improving our turns by 2 days year-over-year as the divisions continue to focus on driving strong working capital discipline.

Finally, we returned nearly \$2 billion of cash to our shareholders in the first quarter, which included another \$1 billion of share repurchases. And looking ahead, we will target another \$1 billion of buybacks in the second quarter.

Moving now to our division and segment results, starting on Slide 8. The Materials Science division achieved double-digit top and bottom line growth in the quarter, advanced its growth projects and delivered ahead of plan on its cost synergy efforts.

First quarter net sales rose 17% from the year-ago period, with double-digit gains in all segments and gains in all geographies. Volume grew 8%, and local price rose 5%, both up in all geographies and both led by double-digit increases in Industrial Intermediates & Infrastructure. In addition to solid demand in its core markets, Materials Science also saw a boost from new capacity ads in the U.S. and the Middle East. The division delivered these results in spite of weather-related supply disruptions in the United States.

Equity earnings rose year-over-year. The largest positive contributor was Sadara, which improved by \$80 million, putting the JV on track for its expected year-over-year improvement.

Operating EBITDA for Materials Science grew 23% versus the same quarter last year to \$2.6 billion, with double-digit gains in every segment.

Turning now to the segments. Performance Materials & Coatings achieved operating EBITDA of \$628 million, up 31% from the year-ago period, primarily due to increased pricing, improved product mix and cost and growth synergies.

Consumer Solutions delivered double-digit sales growth led by local price gains and disciplined price/volume management in upstream silicone intermediate products.

Industrial Intermediates & Infrastructure delivered operating EBITDA of \$654 million, up 28% from the year-ago period. Pricing actions, cost synergies and improved equity earnings led to a strong quarter despite the impact of weather-related outages on the U.S. Gulf Coast, higher raw material costs and increased maintenance and turnaround activity in the quarter.

Both Polyurethanes & CAV and Industrial Solutions delivered robust sales growth on double-digit gains in all geographies driven by broad-based local price and volume gains. Demand growth was particularly strong in Asia Pacific and EMEA driven by the contributions from the new capacity at Sadara. Price increases in downstream, higher-margin system applications led the performance in Polyurethanes.

The Packaging & Specialty Plastics segment achieved operating EBITDA of \$1.3 billion, up 17% from the year-ago period. Polyolefin and Elastomers price increases; volume gains, including the benefit of supply from growth projects; lower commissioning and start-up costs;



higher equity earnings; and cost synergies more than offset stock costs.

The Packaging and Specialty Plastics business grew volume in all geographies on broad-based demand strength, supported by new capacity additions on the U.S. Gulf Coast and increased Sadara production. Local price was up as increases in ethylene derivatives in the Americas more than offset moderate declines in EMEA and Asia Pacific. Demand growth was led by food and specialty packaging and industrial and consumer packaging end markets in Asia Pacific and EMEA as well as rigid packaging applications in all regions.

The business also continued to start up its investments on the U.S. Gulf Coast. The new world-scale cracker and ELITE polyethylene train, which came on line late last year, both ran at a high rates through the first quarter and contributed to the bottom line. The next 2 assets, the NORDEL EPDM and the high-pressure low-density facilities, both came online in the first quarter. And product from both assets has already been flowing into the market.

The new low-density facility has ramped up to full operating rates, and the NORDEL asset is expected to complete the full range of customer qualifications in the second quarter.

Looking ahead, our next 2 capacity additions on the U.S. Gulf Coast are progressing well. The gas phase debottleneck in Louisiana remains on track to be completed midyear, and our new world-scale Specialty Elastomers unit in Texas is expected to start up towards year-end.

Turning to Slide 9. Specialty Products also delivered double-digit top and bottom line growth by staying close to its customers and applying its innovation power to solve their toughest problems. The division achieved these results while advancing the multifaceted integration of the heritage Dow and FMC businesses, highlighting the intense focus on execution.

The division reported first quarter net sales of \$5.6 billion, up 11% from the year-ago period, with gains in all regions and most segments. Volume grew 3%, and local price rose 2%. Currency added another 4%, and portfolio another 2%. Organic sales growth was led by Transportation & Advanced Polymers, up 8%, with Nutrition & Biosciences up 5%.

First quarter operating EBITDA for the division grew 25% to \$1.6 billion versus the same quarter last year, with gains in every segment.

Turning now to the segments and Specialty Products. Electronics & Imaging net sales declined 1% as volume, price and currency gains were more than offset by portfolio. Organic sales increased 2% driven by demand for our highly engineered solutions for semiconductors, which grew double digits as well as gains in consumer electronics, industrial and transportation markets. This more than offset softness in photovoltaic applications. Operating EBITDA increased 9% to \$357 million in the quarter.

Nutrition & Biosciences net sales increased 21% in the quarter to \$1.7 billion. Volume and local price together contributed 5 percentage points on growth in both nutrition and health and Industrial Biosciences. Net sales also included a 4% benefit from currency and a 12% benefit from portfolio, representing the acquisition of FMC's Health & Nutrition business. The integration of these businesses continues to progress well. Operating EBITDA grew 32% to \$418 million in the quarter.

Transportation & Advanced Polymers reported net sales of \$1.4 billion, up 14%. Volume grew 3% driven by double-digit gains in the automotive market amid strong demand for engineered polymers, specialty lubricants and structural adhesives, with growth in all regions. Our differentiated capabilities and lightweighting and electrification, coupled with an increase in SUVs and pickup truck build, helped fuel our strong performance.

Operating EBITDA totaled \$437 million, an increase of 36%. This growth was driven by lower pension and OPEB cost, favorable currency and gains from disciplined price/volume management, which more than offset higher feedstock costs.

Beyond share gains and new applications driving volume growth, supply is tight for nylon and compounds. And other key raw materials are constrained. We've been accelerating investments in capacity and reliability and have a strong track record of meeting customers' growth needs.



Safety & Construction sales rose 7% to \$1.3 billion. Operating EBITDA of \$354 million rose 21%, reflecting lower pension OPEB costs, execution of cost synergies, improvements in the reliability of the plants and favorable currency, partly offset by higher raw material costs.

Looking ahead, we are preparing targeted high ROIC capacity expansions across the portfolio to meet rising demand from customers for our highly engineered materials and naturally sourced, biotechnology based specialty food ingredients. We are outperforming in many industries due to our focus on application development and deep customer intimacy.

We also are debottlenecking plants to keep up with rising customer demand in key markets, including automotive, electronics, medical, oil and gas and food and nutrition. And we continue to execute our asset reliability program in our manufacturing facilities to improve performance, unlock capacity for constrained products and maintain a high service level to customers.

Turning to Ag. Let me start by covering the weather-related drivers across the Northern Hemisphere and Brazil as illustrated on Slide 10, which caused the top and bottom line decline we saw in Ag this quarter. The weather affected our U.S. operations the most as the unseasonably cold spring in the U.S. delayed a significant portion of the planting season by approximately 3 to 4 weeks. This resulted in a material delay in our seed deliveries to our farmer customers during the first quarter.

To put this in perspective, through our advantaged route to market, pioneer brand sales reps typically deliver seed to growers within only a few days of planting. And in a normal season, we deliver the majority of our total North American corn volume over a 4-week period between the end of March and early April, which straddles our fiscal quarter end. This year, planting did not start in earnest until recently, which means a large portion of our seed sales in North America was shifted into the second quarter.

Typically, about 75% of U.S. corn is planted by mid-May. And with all of the advancements in farming practices and equipment, we expect farmers should be able to accelerate the pace of planting to enable this year's crop to be in the ground by then. And in fact, we have seen a steep increase in seed deliveries over the past 2 weeks.

Weather also had an impact on our Crop Protection business as farmers pushed out their nitrogen stabilizer applications and spring preemergent herbicide applications. And in Brazil, the delayed summer harvest shortened the safrinha season, resulting in lower planted area as well as the shift toward lower technology corn as farmers move to minimize the impact of lower yields due to the reduced growing time.

Turning now to Slide 11. This broader market backdrop explains Ag's first quarter net sales decline of 25% and operating EBITDA decline of 39% compared with the same quarter last year. Helping to offset some of the weather-related downside in the quarter was our continued leadership position in sunflower seeds in Europe and expanding our portfolio of global insecticide sales following our merger remedy with strong growth in technology such as Isoclast, Spinosad and Spinetoram during the quarter.

Looking ahead to the second quarter, we expect operating EBITDA to be up in the high 30s-percent range. And factoring in the weak safrinha season and lower expected planted area in North America, we now expect full year operating EBITDA to be up in the high single to low teens percent range driven by the strength of new product launches and realization of cost synergies as the year continues to progress.

Turning now to our modeling guidance on Slide 12. We expect continued healthy demand across the vast majority of our end markets, as well as pricing gains across most of our businesses. We continue to see synchronous global growth and numerous positive leading indicators. Our broad, consumer-driven portfolio benefits from that. And we see our innovations and growth investments driving above-market growth.

At the company level, we see second quarter net sales to be in the range of \$23.3 billion to \$24 billion, up more than 10%. Second quarter operating EBITDA is expected to be up more than 20% year-over-year to \$5.3 billion to \$5.5 billion based on our volume growth, pricing gains, continued ramp-up of our cost synergies and the innovations we are continuing to bring to market across each of our



divisions.

Having just covered our Ag expectations, I'll focus my comments on the other 2 divisions. The Materials Science division expects continued earnings contributions from underlying end market growth, the U.S. Gulf Coast start ups and an improvement in equity earnings led by Sadara. This will be partly offset by higher spending year-over-year of between \$130 million and \$150 million as we enter a heavy turnaround season, primarily in the Packaging & Specialty Plastics segment.

In polyolefins, global demand remains robust and keeps pace with new industry capacity additions. In the Polyurethanes chain, we expect improving supply conditions in the second half to relieve very tight isocyanate fundamentals.

The Specialty Products division is forecasted to grow the top line by the high single digits percent driven by continued demand from end markets, application development and new product introductions. Operating EBITDA is expected to improve by about 20%. Volume and pricing gains and lower pension OPEB costs are expected to be partially offset by higher raw material costs and the absence of a onetime gain in the Electronics & Imaging segment.

Looking across all 3 divisions, while trade and tariff topics have been in the headlines, we believe the potential impact on DowDuPont will not be material to our businesses.

From a cost synergy perspective, we anticipate delivering between \$325 million and \$350 million of year-over-year savings in the second quarter. This is a strong start, and remember that Ag synergies begin to ramp in the back half of the year and through the next North America planting season. Please refer to Slide 15 in the appendix for further commentary on our outlook for the second quarter.

And with that, I'll now turn it back to Ed.

Edward D. Breen *DowDuPont Inc. - CEO & Director*

Great. Thanks, Howard. At the close the call, I want to take a moment to acknowledge Andrew Liveris and recognize his more than 40 years at the company and 14 years as Chairman and CEO of Dow. Andrew was a major architect of our deal and has been a strong partner in the past couple of years as we navigated a very robust antitrust approval process and ultimately, made our vision of a merger of equals with the set up of the subsequent spins a reality. I appreciate everything he's done to help deliver the value of this transaction. And Andrew, on behalf of everyone on this call and all our shareholders, thank you.

With that, let me turn it over to Neal to open it up for Q&A.

Neal Sheorey *DowDuPont Inc. - VP of IR*

Thank you, Ed. With that, let's move on to your questions. First, 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.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question today from P.J. Juvekar with Citi.

P.J. Juvekar *Citigroup Inc, Research Division - Global Head of Chemicals and Agriculture and MD*

My question is on Ag, and particularly on seeds. It looks like the industry has lost some seed pricing. So can you talk about that? And to me, it seems like during these big mergers, nobody really wanted to lose market share. And so going forward, what changes that market share mentality? Do you see that changing next season?

Howard I. Ungerleider *DowDuPont Inc. - CFO*

Go ahead.



James C. Collins *DowDuPont Inc. - COO of Agriculture Division*

Yes, it's probably a little bit early at this point to be calling pricing. I mean, as Howard noted in the update, we're starting this season behind, 3 to 4 weeks or so behind. We've got good visibility on our year-over-year same bag tag pricing. And as we've always said, we're out about flat with some real benefits from mix coming through as we continue to launch newer technology, A series soybeans ramping and also continuing to include some of the new lineup in our corn products. So I'd say overall, mix is really driving value for us. And it's still pretty early in the season to understand what kind of final pricing is going to look like. Will it get competitive? I expect that it will be especially from -- as we start to maybe navigate through any shifts that could go on here between corn and soybeans. I'd have to say based on what we saw last year with soybeans and what we're seeing with our order book this year, I'm feeling pretty good about where we're sitting around our soybean shares in North America. So again, little early to talk specifically about that, but where I sit today and what I can see going forward, I feel pretty good about it.

Operator

And next we move to Dave Begleiter with Deutsche Bank.

David L. Begleiter *Deutsche Bank AG, Research Division - MD and Senior Research Analyst*

Ed, with respect to your comments about being actively involved beyond separation, does that mean on the board level? Or on the management/CEO level?

Edward D. Breen *DowDuPont Inc. - CEO & Director*

Thank you for the question. We will talk more about that in the August, September time frame when we announce further management positions in the company. But I want, just to go back to my comment, make it very clear. I will be actively involved even after the spins.

Operator

And next we'll move on to Vincent Andrews with Morgan Stanley.

Vincent Stephen Andrews *Morgan Stanley, Research Division - MD*

And just wondering the guidance slide for 2018 that was in the first quarter results didn't make it into the second quarter deck. So I'm just hoping that you can give us sort of a sense of your expectations for the second half of the year and what might have changed versus your thoughts at first quarter.

Edward D. Breen *DowDuPont Inc. - CEO & Director*

Yes. Thanks. Well, nothing's changed. Let me just walk through. First quarter, obviously, we have very a strong quarter. And we're above our guidance and above consensus. I think you could see when you model out the second quarter, it's a very robust quarter across the board in all 3 divisions. And when you model it out, I think you'll see that both on sales and on EPS and EBITDA, we're nicely above consensus there by 3 or 4 percentage points. So the first half of the year is racking up really nice, and you could tell from all our comments that our end markets across the board are feeling robust to us. And I just say for the year, look, it's early in the year. We'll probably give more guidance update next quarter on the year, but I am highly confident we will hit what's out there in consensus for us for this year.

Operator

And next we move to Jeff Zekauskas with JPMorgan.

Jeffrey John Zekauskas *JP Morgan Chase & Co, Research Division - Senior Analyst*

If you look at Monsanto's volumes for the -- for their February quarter, they were down 4% in seeds. And I think for the first half, they were down 6%. So can you comment on the difference between your results and the results of other industry leaders? And in the old days, Dow had rights to SmartStax. Is SmartStax something that you can commercialize? And are you beginning to work on that?

James C. Collins *DowDuPont Inc. - COO of Agriculture Division*

Great. Yes, thanks for the question. You're right. If you just think about the timing of when they announced their fiscal year versus ours, in our results is part of what you would have recognized their results the lower safrinha acres that we saw in Latin America. You see that



kind of fully in ours plus you see this real shift in North America, and that's primarily driven by the differences in our route to market approach, recognize a lot of the other competitors seeds are pushed out to retail. And so they'll book a sale and the revenue of that transaction much earlier in their cycle. All of our -- most of our seeds, especially the Pioneer branded seed, is sold direct to growers. So we recognize the revenue at shipment, and you heard Howard talk about that recognition. One of the service models that we offer is the fact that we can deliver seed right to the grower as they're firing up the planter and get the field ready to plant. So we'll sometimes deliver seed within days of their planting. So you see a normally, you would see a shift in where our revenue falls versus others. This year even particularly more dramatic as the season really shift. You'll also see that in some of the guidance we talk about for second quarter where we're going to be up in kind of the low 20s-percent range. So we pick all of that up, and the reason I'm confident about that is I've got good visibility of that order book, right? I have invoices from growers. I know what those shipments are going to be. It's just matter of physically shipping all of those products.

Edward D. Breen *DowDuPont Inc. - CEO & Director*

Jeff, one of the other points that we're going to do, both new Dow and new DuPont will stick with the same fiscal year that we now have, which is basically the calendar year. But we're going to move the Ag company to a fiscal year like the competitor you just mentioned where it's a September 1 start to the end of August. And what that will do is it'll get the planting seasons all aligned in the same quarter. Right now, as you can see what happened this quarter, our shipments happened in the second half of March, beginning of April, and there could be a major swing. And those will be in the same quarter then. So we won't have that issue, and I think it just makes things a little bit clear. So you will see a shift to that, the fiscal year on Ag.

James C. Collins *DowDuPont Inc. - COO of Agriculture Division*

Jeff, your second question about SmartStax, we continue through the agreements that Dow previously had to be fully enabled with SmartStax, and our teams are thinking through the different constructs that are available to us now and the different lineups that we'll have to offer, and you'll see more of that as we launch our plans for 2019 and 2020, both in the Northern Hemisphere and the Southern Hemisphere. So stay tuned for that.

Operator

And next we move to Hassan Ahmed with Alembic Global.

Hassan Ijaz Ahmed *Alembic Global Advisors - Partner & Head of Research*

A question around the pace of buybacks. It seems the synergy numbers are tracking well. The time line of the spin is on target as well. But, obviously, because of all this macro skittishness in the market, your share price has come down over the last couple of months. So my question is with all of these good things imminently happening, why would you guys not accelerate the pace of your buyback?

Edward D. Breen *DowDuPont Inc. - CEO & Director*

Yes. Well, look, we did \$1 billion this past quarter, and as Howard highlighted, we're going to do another \$1 billion this quarter. And really the only issue here is we're literally right in the throes of the capital structure, getting ready to then go with our modeling to the rating agencies. And we really want to get deeper into that process before we make a decision. I think you know a lot of us from our management style. I agree with your comment. You like to put the flip down a little here on share repurchase at these prices. If we have the opportunity during this year once we know a little bit more clarity on that, we will seriously be taking a look at it.

Operator

And next we move on to Josh Spector with UBS. We move on to Chris Parkinson with Credit Suisse.

Christopher S. Parkinson *Crédit Suisse AG, Research Division - Director of Equity Research*

Last quarter, you spoke about reevaluating several businesses within specialty. I believe it equated to roughly 5% to 10% of the segment. Can you just give us an update here and any -- offer any further insights as for how you're evaluating any longer-term portfolio value-creation opportunities in addition to synergy capture?

Edward D. Breen *DowDuPont Inc. - CEO & Director*

Yes. Well, look, on specialty, the short term obviously is we're getting the synergies, and we've got a much bigger number now because of the portfolio shift that we did, putting all the light businesses together. So, obviously, we've been very, very focused on that and feel very



confident we are on track with all of that. The second big real focus area just to kind of put them in order here is we have a lot of growth synergy opportunities as we highlighted on the call in Spec co. So the teams are very focused because they are all high return opportunities kind of within our control, safer to do, don't require a lot of excess money to be spent. So a big focus in that area, and it's in literally all 4 of the different divisions of Spec co. So we've really put a lot of effort into that over the last few months, and then -- and we just did this with our board, the DowDuPont board, and we did it with the advisory board of Spec co. We've really laid out a 2- to 3-year plan of what we want to do with the portfolio. So they're already well-versed on it, and yes, you're correct. We do have some businesses we would like to exit and get the cash for those and redeploy it in higher growth areas, and we have that very defined at this point in time, and it is about up to 10% of the portfolio. And we have real opportunities we know we want to shift the spending into in these other areas of high growth that we're talking about. We will be doing some of it this year, but the bulk of it, we will do right after we do the spins of the company because our teams are so busy now on IT tax work that we need the same people to do some of this. So you'll see us fuel our groove this year, and then clearly, there's all kinds of optionalities we've talked about in this portfolio and whatever's best for creating shareholder value, we're going to definitely take a look at it, and we've already talked to the board about some of those potential opportunities that we need to study with them during the next 6 to 8 months.

Operator

And we'll move on to Frank Mitsch with Wells Fargo Securities.

Frank Joseph Mitsch Wells Fargo Securities, LLC, Research Division - MD & Senior Chemicals Analyst

Yes. And Andrew, was a pleasure working with you, and best wishes on your retirement from Dow.

Andrew N. Liveris DowDuPont Inc. - Director

I'll be tracking you, Frank.

Frank Joseph Mitsch Wells Fargo Securities, LLC, Research Division - MD & Senior Chemicals Analyst

Vice-versa as well. Vice-versa as well. Following up on Dow and specifically packaging, Howard, you mentioned a couple of things that I thought were interesting. Well, more than a couple of things. But just a couple. U.S. pricing was positive on the packaging side although Asia and EMEA was off, but you also indicated that demand was keeping pace with the supply additions, which, of course, everybody is tracking closely. So my question is how do you see polyethylene pricing and margins are playing out as we progress through 2018 and into '19?

James R. Fitterling DowDuPont Inc. - COO for the Materials Science Division

It's Jim. I've got my voice back so Howard is going to let me talk. So actually plastics, pricing and demand held up well through the quarter. We had positive price momentum right through the end of the quarter, and we start out strong into second quarter. I think what you've got going on right now, is, obviously, the pace of capacity additions on polyethylene has not kept up with the pace of ethylene capacity additions. And these things happen, obviously, whenever you're bringing big assets online. Global GDP is running north of 3% right now. We're running north of 4.5% growth on plastics. That's very, very robust demand. There's not enough plastics capacity coming online this year to keep up with that. And when you look at the plastic capacity across the different mixes, that's leading to some positive moves there. Yes, I think in Asia, you see some compression in the margins in Asia because you've got higher oil prices in their oil-based feedstocks over there. So that's compressing margins a bit, but I'm not concerned about pricing as we move through the quarters and into the back half of the year. And I'm not concerned about capacity yet. At this rate, the GDP growth, we need about the equivalent of 3 to 4 world-scale crackers to be built -- a 4 to 5 world-scale crackers to be built and started up in each year. And for the next 3 years, we've got about 3 coming online total. So I think we're in a constructive environment here.

Operator

And Steve Byrne with Bank of America will have our next question.



Steve Byrne BofA Merrill Lynch, Research Division - Director of Equity Research

With respect to the Ag division, what level of cost synergies have been realized so far since the merger? And can you quantify what you describe as them being second half weighted? What do you expect to realize later in the year? And then just other -- one other comment you made, Howard, about the expectations to recover divested revenues or divested businesses. Can you elaborate on whether or not that's just in seed, but it's also in crop chemicals?

Edward D. Breen DowDuPont Inc. - CEO & Director

This is Ed, and Jim, you should jump in also. We've had about \$100 million, \$125 million cost saving so far in Ag, but remember, the Ag is the only business with the bigger delay because you've got to get to the next planting season. So we will -- we've taken a lot of actions on a percentage basis already in Ag. For instance, we've moved production into our facilities, and we're going to get a major cost reduction or COGS improvement from doing that. We know exactly what it is, and we've been taking those actions. You don't actually see it in the results yet. So when you actually see all our run rate we talked about being at 75% at the end of the year, all part of that is Ag starting to kick in. So in the second half of the year, the big drivers in Ag are the new product launches, which are kicking in. And the other big one is actually the synergy, some of them finally starting to kick in because we're starting to get around to that year from when we did it. So those are the 2 big drivers that lift the second half a lot in Ag. Jim, you want to take the divestment question?

James C. Collins DowDuPont Inc. - COO of Agriculture Division

Sure, Steve. You're right. We're in the middle at looking at the total portfolio both on the seeds and the crop protection perspective. On the seeds side, what we'll do is we'll typically look to understand these different crops that are maybe tangential or not core versus crops that are core. So corn, soybeans, wheat, rice, those will be our core focus, and we look to continue to invest and expand in our geographies around the world. But in the past, we've taken a look at alfalfa, we've looked at sorghum, we've looked at some of the other secondary crops and made some decisions. Now that we've combined the portfolios, we'll have an opportunity to do some more of that on the divestiture side. On the acquisition side, on seed, as we continue to look at diversifying and looking at markets around the world, the vegetable seed industry for us is an interesting place to look. And there are some players out there that could represent some good value for us. In Crop Protection, we are taking kind of a best owner mind-set and looking at our portfolio to understand where these products are on their maturity curves, the level of generic competition that they face around the world and the opportunity for us to invest more heavily in our pipeline. And as Ed said is a real part of our strength in the second half of the year and certainly our strength over the next couple of years. At the investor conference earlier in the year, we talked about \$4.5 billion of peak sales from launches that are occurring right now. And making sure that we've got the kind of resourcing to drive those launches out of the pipeline, not just leak them out, but launch them out in an aggressive way is a core strategy for the leadership team.

Operator

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

Arun Shankar Viswanathan RBC Capital Markets, LLC, Research Division - Analyst

Okay. Just wanted to go back to the Q2 and full year guidance. You've spoken a little bit about Ag and materials co. There's a lot of percentages given for this specialty businesses as well. What would drive some of the estimates to the upper end of those ranges in each business within specialty? And then similarly, is there any upside for you guys to, as the year progresses, to again go back to the full year guidance to be above our expectation right now?

Edward D. Breen DowDuPont Inc. - CEO & Director

Well, look, things feel really good right now. We have strength virtually in every end market we're serving. The only one that was a little bit soft on this quarter was the construction market, and it was totally weather-related in Japan and in the U.S. If you look at our guidance for the second quarter, we see a significant pickup in Safety & Construction. As you can see here, high single digits on the sales line and mid-30s on the EBITDA line. So it was going to be a very strong quarter. So that was literally the only one we -- was softer than we thought that was literally driven by that. You see us digging right out of that right away. So in the first quarter, just to rundown some of the specialty for you, probiotics grew 30%. Pharma grew 18%. As you know, we're very excited about pharma because we've put the businesses together from FMC, Dow and DuPont, and we really have a solid position there now. Semiconductor was up 10%. One I'd like to highlight is auto, where we've been running for 3 years way above auto builds, and our growth this last quarter was 8% on average. All through 2017, it was 8%. It's you can clearly see because of electrification and lightweighting, we are just getting more content into cars,



and we see that demand continuing. So long story short, if everything holds up, where we're seeing in it, we're feeling very solid going into, obviously, the second quarter with the guidance we've given and just go into the second half of the year. And as Jim Fitterling just got on talking about the cycle in the business and how it feels, it's a really good feeling now. In fact, it's amazing, the stock market in the last 60 days, especially with our stock versus where we feel things are and all, it's the biggest disconnect, I think, I've ever seen in my career. That is what it is, but we're worrying about running the business. Demand feels good. And as I said, I'm highly confident we'll hit consensus, and you can take that how you guys want.

James R. Fitterling *DowDuPont Inc. - COO for the Materials Science Division*

And I think the other thing, Arun, that you got to consider we delivered that strong first quarter. We had some wintertime planned outages in the first quarter. So probably cost us \$65 million on the material side in first quarter that we're not going to have in the second quarter. We've got some higher turnaround in the second quarter, but we've got more plant capacity coming on in plastics through the year. So our view is things are very positive here. I think are people are confusing what's happening into the financial market with what's happening in our real end markets, and our real end markets are strong.

Operator

And next we move to Jonas Oxgaard with Bernstein.

Jonas I. Oxgaard *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

First, curious the sirens I keep hearing the background is that your "we beat the quarter" signal? Beyond that, I was wondering a little bit about the noise with China, the trade war. Could you talk a little bit about your exposure to China? I mean, what products and how much revenue are we talking about is actually being shipped from the U.S. to China today? And what's your general thinking about the whole trade war situation?

Edward D. Breen *DowDuPont Inc. - CEO & Director*

Well, let's take it by its pieces, and Jim Fitterling, why don't you hit it first?

James R. Fitterling *DowDuPont Inc. - COO for the Materials Science Division*

Look, I don't think we're looking at a major trade war here, Jonas. I think some of that's been overplayed. I think what's going on here is we're trying to find a path toward fair treatment with trade with all countries, including making sure the IP is protected and making sure that products aren't being dumped back here in the United States. So I think people have got us in the crosshairs on the trade war thing, and I don't think that's what's going to happen. So nothing's been imposed at this time that's having a dramatic impact on us. And remember, we have global assets to cater to the demand in China. The whole reason we've built Sadara was to serve the eastern part of the world, and so that's what's happening today. We built the U.S. Gulf Coast to serve North America and South America. And I think equally in Ag with the global trade of those products, Jim Collins knows that if product from America is not going to go to China, product from some other country is, and that American product is going to move around.

Edward D. Breen *DowDuPont Inc. - CEO & Director*

And just to talk on the -- in the Ag business, just use the example of Brazil ships more the soybeans into China. We will take up the slack because the global demand is needed. In fact, last year, there was more consumption than there was production. So everything that's being made globally is needed. And, by the way, most of the soybeans are made in Argentina, grown in Argentina, Brazil and the U.S. So our demand in the U.S., if something happened, would start going into markets like Vietnam, Indonesia, Mexico, Turkey, which have been bigger consumers than actually growing consumers of soybeans.

James C. Collins *DowDuPont Inc. - COO of Agriculture Division*

Jonas, I'll just add one more thing. For the actual products that we sell into China, as you know, our seed businesses is locally sourced, essentially 100% with JV partners in China. And on the crop protection chemistry sales, about half of our sales today are locally sourced. And the others are brought into country, and those are essentially already placed in country for the remainder of 2018 and already for a part of 2019. So from a product cycle, we're also in pretty good shape.

Edward D. Breen *DowDuPont Inc. - CEO & Director*

Yes, and just to wrap that up from a specialty standpoint, we see no impact there. Our biggest business in China is in the electronics area, and we're pretty much all locally sourced in the market.

Operator

And next we move on to Peter Butler with Research.

Peter Butler

Andrew, we might not be hearing you on Dow's quarterly conference calls. But I think in the future, I now expect to hear you as a major global leader on the Davos scale. So...

Andrew N. Liveris *DowDuPont Inc. - Director*

Maybe Davos and the desert, Peter, but we'll see.

Peter Butler

Okay. Well, the question is when do you folks intend to increase the visibility on the stock market stories for the proposed spins? Basically, you've been asking investors to discount a 2-year-old story. We had a great spin -- pardon me. We had a great merger, and now we're going to have spins. People need to have a lot more details on where you're going with these 3 pieces.

Edward D. Breen *DowDuPont Inc. - CEO & Director*

Yes, Peter, it's a good question. And we haven't pinned down the exact date. But our plan is in the kind of that September, October time frame is to do a major Investor Day for each of the 3 businesses. And then we'll be following up, obviously, very quickly after that because we're going into last months of this with all our filings that go out with a lot of detail. And then we'll be doing our road show. So we'll be talking a lot more about portfolio, strategy going forward, a lot more of that. You'll see capital structure and all will be done and where's our leaning as management team in each of the 3 companies on uses of cash, et cetera, et cetera. So we're not that many months off from doing a lot more of that.

Howard I. Ungerleider *DowDuPont Inc. - CFO*

Peter, this is Howard. I mean, I think the only thing I would add a couple of points we'll get the Form 10s out in the fall as well. And I would respectfully disagree with the thesis this is 2-year-old story. I mean, we are focusing on delivering results, whether it's volume growth, pricing growth, the cost synergies are hitting the bottom line. We've got new assets that have come online that are hitting the bottom line both in the materials division and in the specialty division. And the Ag is a shift from Q1 to Q2. So the businesses are all performing at or above their market comps.

Operator

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

John Ezekiel E. Roberts *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst, Chemicals*

I thought it was a good quarter, and I know you're coming up on the hour. So I just wanted to say thank you to Andrew for all your years of service, and best wishes in your new role at Aramco.

Andrew N. Liveris *DowDuPont Inc. - Director*

Thank you, John.

Operator

And our final question today, we'll hear from Kevin McCarthy with Vertical Research Partners.

Kevin William McCarthy *Vertical Research Partners, LLC - Partner*

Yes. As we look across your industrial results, it occurs to me that volumes are quite strong in areas like Industrial Intermediates & Infrastructure, perhaps construction phasing markets. It sounded like they will be even stronger were it not for weather. So in that



context, as you survey material sciences, where do you think you might need to debottleneck or consider brownfield capacity additions over the next couple of years? And then secondly, what are your thoughts on planned maintenance activity in 2Q versus 1Q?

James R. Fitterling *DowDuPont Inc. - COO for the Materials Science Division*

Yes. Thanks, Kevin, for that question. We have a high return on invested capital opportunities in front of us, what I would call incremental size investments, not anything like the magnitude of what we did in the Gulf Coast and Sadara. Although those incremental opportunities in plastics would add up to a similar amount of peak capacity and much less capital. We're able to do all that within our D&A levels in Materials Science. So I think that's very positive. We have some growth in all of the segments. So in Consumer Solutions and silicone, you're going to see some need for some additional capacity, both for my business and for Mark's specialty downstream business. You're going to see that Polyurethanes and our systems business, which has been growing double-digit. You're going to see some debottlenecking in Industrial Solutions in our EO Derivatives business, which is not had a lot of capital added over time. And I think you're going to see continued good, strong growth, the value creation and high free cash flow coming out of those businesses.

Operator

And that will conclude today's call. We thank you for your participation.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS THOMSON REUTERS'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018 Thomson Reuters. All Rights Reserved.

