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EDITED TRANSCRIPT

DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

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OVERVIEW:

Co. reported 2Q18 results. Expects 3Q18 net sales to be \$20.0-20.5b.



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

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PRESENTATION

Operator

Good day, and welcome to DowDuPont's Second Quarter 2018 Earnings Call. (Operator Instructions) Also, today's call is being recorded. At this time, I would now like to turn the call over to Neal Sheorey. Please go ahead, sir.

Neal Sheorey - DowDuPont Inc. - VP of IR

Good morning, everyone. Thank you for joining us for DowDuPont's Second Quarter 2018 Earnings Conference Call. We are making this call available to investors and media via webcast.

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

Speaking on the call today are Ed Breen, Chief Executive Officer; Howard Ungerleider, Chief Financial Officer; Jim Fitterling, Jim Collins and Marc Doyle, Chief Operating Officers for DowDuPont's Materials Science, Agriculture, and Specialty Products divisions, respectively; and Greg Friedman, Vice President of Investor Relations.



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

Please read the forward-looking statement disclaimer contained in the news release and slides. During our 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 10-Ks, include 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, Neal, and good morning, everyone. As you saw, we had a strong second quarter. The highlights were that we grew sales, volume and operating EBITDA by double digits percent, and we delivered local price gains and operating EBITDA margin expansion. We are delivering growth in each division due to a combination of strong global demand and innovation. These are key indicators for me that our business focus and our people are making a difference in the marketplace, for our customers and for shareholders.

Net sales grew double digits percent in every division, and we were up in every region. Growth was fueled by broad-based volume gains, enabled by capacity expansions from our U.S. Gulf Coast and Sadara investments, benefits from the recovery of Ag sales due to weather-related delays last quarter and pricing strength. This is the second quarter in a row that we see synchronized growth in our end markets.

We also continued to benefit from cost synergies. We realized more than \$375 million of savings in the second quarter. Savings since the merger closed total nearly \$900 million. Examples of our cost synergy work include renegotiating procurement contracts, streamlining manufacturing operations and rightsizing our organization. Most of our nearly 900 cost synergy projects have been initiated.

Based on our progress so far, we are increasing our year-over-year savings target to \$1.4 billion, up more than 15% from our previous target. And we remain on pace to deliver our target of \$3.3 billion on a run-rate basis at the end of 2 years.

We're seeing benefits in our gross margin, which was up this quarter despite raw material costs, and we're seeing it in SG&A, which declined as a percent of sales. I'm very pleased with the progress our teams are making with synergies while continuing to run the business well.

Now I will turn to the status of the intended separation and spins on Slide 3. Since our last call, we have made substantial progress determining the capital structures of each of the spins. We expect to share our capital structures at our investor events this fall.

We also made progress this quarter with the other items you see on the time line. We remain confident that the new Dow will separate by the end of the first quarter of 2019, and Corteva by June 1, resulting in the creation of new DuPont at that time. We expect to file the first Form 10 for Dow in September and the initial Form 10 for Corteva by the end of October. Our teams are getting excited about this as the date gets closer, and they can see the opportunities ahead for themselves as more focused companies and leaders in their industries.

We have made strong progress with building out the 3 advisory committees, announcing 10 new members since our last earnings call. The addition of these high-quality leaders strengthens the focus of each committee and the diversity of perspective within them. We intend to announce the leadership teams of Corteva and DuPont next month.



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

Also, on July 1, we completed the handover of the management books and operational control of the Hemlock Semiconductor JV to Specialty Products. This completes the transfer of the \$2.4 billion in EBITDA resulting from the portfolio realignment we announced last September. Starting with the third quarter, the results of the JV will be aligned with Electronics & Imaging. And we will provide you with a recast of our historical results to reflect this reporting change.

I also recognize many of you are interested in our views on the potential effects of tariffs that took effect July 6. We support fair trade and continue to work with all stakeholders to find effective and measured solutions to unfair trade policies. We have completed an analysis of the potential impact, and continue to expect that tariffs will not have a material impact on the company in 2018 partly due to mitigation actions we have already taken and partly due to our global asset base.

On the Ag side, we recognize that trade tensions have increased volatility in agricultural commodity prices and have amplified market reactions to very highly rated U.S. crops. We can also see that global markets are already adjusting to the current landscape. U.S. soybean exports that would normally go to China are simply being shifted to other countries, as reported by USDA. That said, we will continue to monitor events as they unfold and take actions to mitigate any potential impacts.

With that, I'll turn it over to Howard to cover our financial performance in more detail as well as our outlook.

Howard I. Ungerleider - DowDuPont Inc. - CFO

Thanks, Ed. Moving to Slide 4 and a summary of our second quarter results.

We once again grew earnings per share, net sales and EBITDA, each by double digits. Drivers of the 41% EPS increase include: volume and local price gains, cost synergies, currency, higher equity earnings and lower pension and OPEB costs. Our tax rate was also lower than the year ago period, in line with our modeling guidance. These gains more than offset higher raw material costs in all divisions and increased turnaround activity in Materials Science.

We drove top line growth of 17%, led by broad-based demand for products across the majority of DowDuPont's key market verticals. Sales rose 25% in Agriculture, primarily driven by recovery from weather-related delays in the first quarter and local price gains. Materials Science delivered top line growth of 18% with double-digit gains in every segment and in every region. And Specialty Products achieved 10% sales growth in the quarter with gains in most segments and in all regions.

Volume increased a healthy 10% with gains in all divisions. Regional highlights included double-digit demand growth in the U.S., Canada and Asia Pacific and mid-single-digits growth in EMEA. Agriculture grew volume 20% primarily driven by recovery from the weather-related delays in the first quarter. Materials Science grew volume 10% with gains in all segments and regions, and Specialty Products delivered 4% volume growth.

Local price increased 4% with gains in all divisions and all regions. Price increases were led by Materials Science, which was up 5% with gains in all regions on continued strong supply demand fundamentals across most of its targeted end markets and a 4% price improvement in Agriculture. Specialty Products increased local price by 1%.

Equity earnings increased by \$177 million, led by greater contributions from the Kuwait joint ventures and improved Sadara results.

And as Ed mentioned, we continue to exceed our cost synergy commitments, delivering more than \$375 million in the quarter.

These collective drivers translated to operating EBITDA of \$5.7 billion in the quarter, up 29% year-over-year with double-digit gains in every division and operating EBITDA margin expansion of more than 200 basis points.

Cash flow from operations in the quarter was \$2.1 billion, driven by increased cash earnings in each of our divisions.



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

And we, again, returned nearly \$2 billion of cash to our shareholders in the quarter, including another \$1 billion of share repurchases. We have now returned \$5.6 billion of cash to our owners since merger close. In the third quarter, we will target another \$1 billion of stock buybacks.

Now turning to our modeling guidance on Slide 5. For the third quarter, we continue to expect healthy demand as well as pricing gains across most of our businesses. At the company level, we expect our top and bottom line growth to continue. We see third quarter net sales to be in the range of \$20 billion to \$20.5 billion. Third quarter adjusted EPS is expected to be up in the mid-30s percent range. This includes our expectation of delivering between \$400 million to \$425 million of year-over-year cost synergy savings.

The Materials Science division expects continued EBITDA expansion from underlying end market growth, pricing gains, new supply from our U.S. Gulf Coast projects, cost synergies, lower start-up and commissioning costs and continued improvements in equity earnings from Sadara. This will be partly offset by higher raw material costs and the impacts of an MDI force majeure and moderating isocyanates prices that are coming down from first half levels.

The Specialty Products Division expects continued price and volume growth in the quarter, reflecting robust demand in our key end markets and strength from new product developments. The division expects to realize further contributions from cost synergies, which will help offset raw material headwinds across all of the segments and a onetime gain in the prior year in the Safety & Construction business.

The Agriculture division is expected to generate a seasonal loss as we prepare for the start of Latin America plantings. The Brazilian real continues to be volatile and is expected to be a year-over-year headwind for the segment. Additionally, the division anticipates a reduction in planted corn area in Brazil due to improving soybean economics, which is a headwind to our current portfolio on Brazil that favors corn plantings over soybeans. The division expects to more than mitigate these market headwinds on a year-over-year basis through continued delivery of our strong new product pipeline and execution of our synergy programs.

Now turning to the full year 2018 on Slide 6. We are raising our full year earnings guidance versus our last annual guidance update in February to reflect our strong performance in the first half of the year, which we expect to outweigh some discrete headwinds in the second half. At the company level, we expect earnings per share to be up in the low 20s percent range versus the prior year. We now expect upside in the Materials and Specialty Products divisions to be partially offset by challenging market conditions within the Agriculture division, mainly stemming from planted area dynamics in Brazil and the U.S. along with weakness in the Brazilian real. Despite these headwinds, we continue to take actions to drive our earnings higher, including our cost synergies, which we now see delivering \$1.4 billion in year-over-year savings, an increase of \$200 million.

To sum it up, for the first half of 2018, the DowDuPont team has delivered very strong year-over-year net sales and EBITDA growth. And for the full year, we now expect to deliver double-digit sales and EPS growth by continuing to focus on price/volume discipline, cost synergies, innovation and our growth investments.

With that, I'll now turn it over to Jim to cover the results for Agriculture.

James C. Collins - DowDuPont Inc. - COO of Corteva Agriscience™, Agriculture Division

Thanks, Howard.

Turning to Slide 7. I'd like to start with the highlights of the Ag division for the second quarter and then recap the first half as we've largely closed out the planting season in the Northern Hemisphere. Agriculture's second quarter was very strong with double-digit sales and operating EBITDA growth.

The sales progression this quarter played out largely as we expected. You may recall that when the quarter began, unseasonably cool weather had pushed planting progress in the Northern Hemisphere 3 or 4 weeks behind. By early May, the weather warmed up and field conditions became favorable for planting. Farmers showed an impressive ability to bring planting rates back up fast. By mid-May, rates in the U.S. had returned to normal levels, and by late May, corn planting was essentially complete.



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

Now field conditions have remained generally favorable since then, and forecasts for yield show that most farmers should have a good harvest again, this year despite the late start for most parts of the country.

We were pleased with the way our teams came together to quickly deliver our products to customers. We achieved volume gains of 20% as we successfully recovered all of the sales that had been delayed.

Let me touch on 3 other highlights of the quarter. First, we achieved local price gains driven by continued penetration of new corn hybrids and A-Series soybeans. Second, we delivered nearly 20% growth in insecticides with better supply due to work on debottlenecking and productivity and new product launches. Third, we continued to make progress toward our cost synergy target while advancing our growth synergy work.

While soybean royalty costs rose in the quarter, this was expected as we increased the penetration of Roundup Ready 2 Xtend soybeans. Meanwhile, we continue to improve our germplasm, work on the efficiency of our supply chain to bring unit costs down and advance our pipeline of new products. We continue to position our products as priced for value and did not see any heavy discounting in the current season. It's important to note that our new product pipeline is the best it has ever been, and we expect to launch 21 new seed and crop protection products over the next 5 years. In fact, since our last earnings call, we were encouraged to receive approval of the active substance, Inatreq, for use in the European Union. This innovative product offers a new mode of action to control septoria, a disease that has been reducing wheat yields in many parts of Europe. Inatreq is produced by fermentation and is derived from natural sources, which we believe will appeal to many farmers in this market. This example reinforces our continued leadership in bringing naturally derived products to the marketplace.

Turning to our performance for the first half. The Ag division sales were nearly flat as local price and currency gains were offset by volume declines. The causes of the volume pressure were twofold. First, North America saw a reduction in corn- and soybean-planted area. This reduction impacted both seed and crop protection sales. Second, the delayed summer harvest shortened the safrinha season in Brazil, resulting in lower planted area as well as a shift toward lower technology corn as farmers acted to minimize the impact of lower yields, given the reduced growing times. Given these factors, we see operating EBITDA of about \$2.7 billion for the full year, up 4% versus 2017.

To support our growth strategy, we continue to invest in product launches and building out our digital capabilities. We see strategic value in expanding our own use of technology in the research process as well as expanding our digital offerings to provide a more complete product for our customers, including both agronomic and farm management solutions. At the same time, we are building out our multi-brand, multichannel strategy. For example, this past quarter, we introduced Brevant brand of seeds in Russia and Ukraine. And this fall, in addition to launching Brevant in Brazil, U.S. farmers will see strategically important shifts in our brand strategy when we present next year's seed lineup.

Corteva is well on the path to becoming an increasingly innovative Ag company. We are excited about our future as a focused, pure-play Ag company, a trusted partner that offers farmers the right products for the right acres. And we are committed to bring to the market ever better ways for farmers to drive their productivity while creating higher value for shareholders.

With that, I'll turn it over to Jim to cover Materials Science.

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

Thank you, Jim.

Moving to Slide 8. Materials Science delivered another standout quarter. Our results demonstrate the mindset and the sharper focus of the new Dow: a more agile and disciplined enterprise where value growth is and will remain job #1. Our performance also speaks to our ability to play to our core strengths moving closer to the customer in our targeted market verticals, maintaining our position as a best-in-class operator and driving an optimized cost structure.

I'll start with the division highlights. We achieved double-digit top line growth, led by broad-based demand in our core end markets of consumer care, infrastructure and packaging. And our growth projects delivered organic expansion. Our EBITDA grew even faster year-over-year as we, again,



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

delivered ahead of plan on our cost synergy targets. And our equity earnings showed strong improvements driven by the Kuwait joint ventures and Sadara.

We delivered these results despite higher raw material costs of more than \$400 million and a \$100 million impact from higher planned maintenance activity.

Our growth projects were very important contributors to the quarter. I'll start with the Sadara. The JV delivered another \$82 million of year-over-year equity earnings improvement, bringing the first half benefit to about \$160 million. Nearly 2/3 of this improvement shows up in Industrial Intermediates & Infrastructure. Looking to the back half of this year, we will begin to lap the full commercial operations of this complex. But the JV remains on track to deliver its \$200 million equity earnings improvement this year.

Switching to our U.S. Gulf Coast investments. Our new Texas-9 ethylene facility and our ELITE, NORDEL and low-density facilities are all running well and contributing to the bottom line.

Up next, our bimodal gas-phase debottleneck at our St. Charles site is expected to be completed in the fourth quarter as part of a planned turnaround of this unit, which we shifted to later in the year to take full advantage of the strong demand in the first half. And our new high-melt index elastomers unit remains on track for start-up by year-end.

We're also underway with our next wave of incremental projects. We recently began construction on the expansion of our new Texas-9 ethylene facility, which will increase its capacity to 2 million metric tons, making it the largest in the world. This expansion will support our derivatives as well as MEGlobal's new capacity being built next door. And as such, the cracker expansion will come online in late 2019, aligned with the downstream derivative needs.

Turning to the business performance in the quarter. Performance Materials & Coatings achieved an operating EBITDA growth of 5%, led by local price gains. Excluding an asset sale in the year ago period, EBITDA rose about 15%. Disciplined price/volume management delivered sales gains in both businesses and in every region.

Consumer Solutions, again, delivered double-digit sales growth on gains in upstream silicone intermediate products and continued acceleration of our growth synergies.

Industrial Intermediates & Infrastructure increased operating EBITDA by more than 60%. Broad-based demand growth, pricing actions, cost synergies and improved equity earnings in both Kuwait and Sadara drove strong results in the quarter. Our continued focus on operational and commercial execution enabled us to more than offset higher raw material costs and increase planned turnaround activity.

Both our Polyurethanes & Chlor-Alkali Vinyl business and our Industrial Solutions businesses delivered double-digit sales growth with gains in all geographies. Demand growth was particularly strong in Asia Pacific due to the contributions from new capacity at Sadara. Customer wins in our Polyurethanes systems house applications also drove our growth.

The Packaging and Specialty Plastics segment grew operating EBITDA 14%. The drivers were broad-based local price gains; robust volume growth, including the new capacity from our growth projects; higher equity earnings; lower start-up costs; and cost synergies. These more than offset the increased raw material costs and higher planned turnaround activity. The Packaging and Specialty Plastics business grew volume by a solid 9% with gains in all geographies. The broad-based demand strength that we captured was led by double-digit gains in food and specialty packaging, industrial and consumer packaging and rigid packaging end markets. The business also benefited from double-digit gains in elastomers and high single-digit gains in Wire and Cable.

To sum it up, Materials Science, which will be the New Dow in about 8 months' time, demonstrated the value growth that we can deliver through our focused portfolio, operational excellence, unique solutions and organic growth investments. This marks the 23rd consecutive quarter of year-over-year earnings growth delivered by the new Dow team. The core business is capturing demand growth well above GDP, our investments are delivering top and bottom line gains and we continue to prudently manage our cost structure.



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

As we look ahead toward spin, I look forward to sharing more details in the coming months about our well-defined strategic road map. We have an exciting ambition that is geared toward enabling higher return on capital, increasing free cash flows and greater shareholder returns.

Now I'll turn it over to Marc to cover Specialty Products.

Marc C. Doyle - DowDuPont Inc. - COO of Specialty Products Division

Thanks, Jim.

Turning to Slide 9. Specialty Products, again, achieved double-digit top and bottom line growth in the quarter. We continue to deliver results through customer-focused application development powered by our innovation engine and strong customer relationships. Our integration of the FMC business into the portfolio is complete, and we continue to advance both our cost and growth synergies from the powerful combination of the 3 businesses.

The division reported double-digit net sales gains with Transportation & Advanced Polymers leading the way with organic sales growth of 11%. Operating EBITDA for the division also grew double digits with gains in most segments. In fact, operating EBITDA margins expanded by over 280 basis points as lower pension/OPEB costs, higher demand, cost synergies and increased local price more than offset rising raw material and freight costs.

Turning now to the segments in Specialty Products. Electronics & Imaging net sales and operating EBITDA declined due to portfolio actions taken in 2017. Excluding this, both net sales and operating EBITDA increased. Semiconductor and consumer electronics end markets remain robust, and our demand growth continues to outpace the market. Strength in these areas was partially offset by lower photovoltaic sales, which were negatively impacted by reduced PV incentives in China. Excluding prior period portfolio actions, operating EBITDA improved as volume growth, lower pension/OPEB costs and cost synergy delivery more than offset higher raw material and freight costs and increased spending for growth investments.

Nutrition & Biosciences grew net sales by double digits with price and volume gains in addition to the benefit from the acquisition of the FMC Health and Nutrition business. Organic sales were up 5%, representing growth in both the Nutrition & Health and Industrial Biosciences business. Nutrition & Health sales gains were preliminary driven by areas in which we are investing such as probiotics and pharma excipients, attractive businesses with solid growth characteristics. Industrial Biosciences sales growth was driven by CleanTech from alkylation and acid equipment sales, microbial control and bioactives. Operating EBITDA grew in the mid-30s percent range driven by portfolio benefits, cost synergies and volume growth.

Transportation & Advanced Polymers also grew net sales in the double digits, and operating EBITDA grew nearly 50%. The segment continues to outperform driven by strengths in automotive, which grew double digits and again significantly outpaced auto builds as well as in electronics and aerospace end markets. Additionally, we benefited from pricing strength in our nylon products as tight industry supply dynamics supported our position with customers looking to meet strong market demand. Operating EBITDA margins expanded by more than 600 basis points to 30% driven by sales gains, pension/OPEB benefits, currency and cost synergies.

Safety & Construction net sales increased driven by strength in construction markets in the U.S. and Canada and industrial applications. The segment increased local price well with gains across all businesses. Operating EBITDA increased 30% as lower pension/OPEB costs execution of cost synergies, volume growth and favorable currency more than offset higher costs, including higher raw materials as well as freight costs in the U.S. and Canada.

Looking ahead, we continue to advance our high-return capacity expansions across the portfolio. The probiotics expansion remains on track to be completed by the end of the year, and we recently announced the Tyvek expansion aimed at high-growth end markets. Additionally, we are increasing polymer extrusion capacity in Asia Pacific to address demand in the automotive light weighting market. We are also executing on our asset reliability program to enable sustainable supply and drive margin expansion. In addition to internal actions being taken to drive profitable growth, we will also continue to pursue portfolio actions to improve our underlying business as reflected in our decision this past quarter to exit the European Styrofoam business. This transaction is expected to improve both margins and top line growth and should close by year-end.



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

I'll now turn it over to Greg to open the Q&A.

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

Thank you, Marc. Let's move on to your question. First, I'd like to remind you that our forward-looking statements apply both to our prepared remarks and the following Q&A. Rachelle, please provide the Q&A instructions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today will come from David Begleiter with Deutsche Bank.

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

Ed, you increased 2018 cost savings by a little bit. Why didn't you increase the full \$3.3 billion cost-savings target?

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

Yes, David, we're still working on that and we have not given up on looking at a potential increase there. One of the areas we're going back on is the procurement area, which you know is a big chunk of where we got savings. 2/3 of our projected savings on the \$3.3 billion is coming from kind of the COGS area and so we're taking another run through that, and I would hope we have some opportunity there. So we'll address that the next time we speak publicly. But what we have been able to do, as we mentioned in our comments, is we have almost 900 projects, almost all -- at last quarter, by the way, we had about 75% of them being worked on. Now we're literally at about 95% of them are already either initiated or finished or well on their way. So we've just been able to really expedite and kind of move the time line up on it, so it was really a move up of some of the \$3.3 billion to get that extra \$200 million in here. But again, we're not giving up that we can maybe get that number higher and we're working real hard on it.

Operator

And next, we'll move to P.J. Juvekar with Citi.

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

So in Specialty Plastics, your price was up only 1% despite strong polyethylene prices in the U.S. since last year and because of the hurricanes and all that. So is it polyethylene price outside the U.S. that is expecting that or something else? And then Jim, (inaudible) to that, this cracker start-up in the U.S., including your Texas-9, how do you see that shape of the ethylene cycle in second half and then going into 2019?

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

Yes, thanks, P.J. This is Jim. So on Plastics, while we did see good volume and good price in North America, we also saw some softening in Europe, so chain margins were down a bit in Europe, and I think with 1/3 of our business based over there, that pulls things down a little bit. And I would say Asia Pacific held up, I would say, kind of flattish for the quarter. So it's mostly volume growth that you see coming through there. We had \$400 million of higher raw material costs, so you've got some margin compression pushed on the raw materials side. But I'm not worried about volume growth in Plastics. Volume growth is very robust, and it's across-the-board. All the segments are growing strong. As the ethylene cycle goes,



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

ethylene's a little bit disconnected right now just in the United States Gulf Coast because there's not enough derivative demand or supply there to convert it. And so I think as the year progresses, you're going to see some of that balance out. In the short term, you've seen some people turn down higher-cost ethylene derivatives because there's really not much capacity to move it out. So I think when you look at it, you've got to look at full plastics chain margins, not ethylene. There really isn't much of an ethylene merchant market that's going to make this swing.

Operator

And next, we'll move to Jeff Zekauskas with JPMorgan.

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

At the end of 2017, you forecasted your EBITDA and you thought that Ag would be up high teens percent and the Materials company would be up mid-single digits to high single digits. And so now things look different to where Ag is up mid-single digits and the Materials Sciences company is mid-teens. And so what that means is that the Ag EBITDA is falling short of the original expectation by about \$300 million, \$250 million or \$300 million, and the Materials Sciences EBITDA is better by, I don't know, \$800 million. Can you describe how your business has performed relative to your original expectations so that you can give us a sense of why Ag is lower and Materials Sciences is higher? Is it all external factors? Is it internal factors? How would you describe it?

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

Let me hit Ag, and Jim Collins, if you want to jump in, fine. I mean, it's really the Ag story is -- let me hit the first half. We actually did a little better in the first half than we thought we were going to. We made up the whole shift from first quarter to second quarter. You might pick a different number but, in my mind, we did another \$70 million, \$80 million of EBITDA over that shift. So we had good, real robust shipments with our Crop Protection business that was up by 20%. So I think we ended the first half really kind of solid relative to what we thought at the beginning of the year. The issue in the second half is all externally related. It's currency, as you know, the Brazilian real has taken a major move here in the last couple months, so that's a major piece of it and so we're forecasting these higher rates for the rest of the year. Who knows if that holds. And then, secondly, we've got a shift, as everyone's talked about, from corn to soy, which hurts us a little bit obviously as we go into Latin America season. So that's really the 2 things that changed that number around. Jim, do you want to add anything else?

James C. Collins - DowDuPont Inc. - COO of Corteva Agriscience™, Agriculture Division

Yes, Jeff, let me add more thing. When we built the original plan for 2018, you'll know, based on USDA reports, that we had a reduction of corn acres in North America and a reduction in soybean acres. So if you think about this lower number, about 1/3 is attributed to just lower acres, 1/3 is the currency that Ed mentioned and then everything else. The other 1/3 is kind of that shift from corn to soybeans anticipated in Brazil, along with the safrinha market hold that we talked about in the first quarter. There are some other minor things like freight and some raw materials increases in there, but I'd say those are the major ones.

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

Jim Fitterling, you want to address MatCo?

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

Yes. I think, Jeff, on MatCo in the second half, we had a couple of major turnarounds in the quarter -- in the second quarter so in Terneuzen and also down in Freeport. And so as we get through that in the second quarter, you should see some positive impact of that plus the fact that we'll have less turnaround costs in the quarter. I do expect we'll still have some raw materials headwinds coming at us, but I think the volume growth



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

is good and we still got some year-over-year improvements on the new capacity growth. And then by fourth quarter, we're going to have the St. Charles gas-phase debottleneck done. It's about 125,000 tons of additional capacity in St. Charles and then we're going to have the debottleneck -- the new plant coming on, the high-melt index elastomers plant, coming on in the fourth quarter.

Howard I. Ungerleider - *DowDuPont Inc. - CFO*

And I think just maybe, Jeff, this is Howard, to add a little bit more color on MatCo. When you look at -- your analysis is right. You think about what the key drivers are, it was broad volume growth, so 10% volume growth in the first half -- or in the second quarter, I should say; local price up 5% as well; the equity earnings, both the Kuwaiti JVs and the Sadara JVs were better than expected; and then we did get a little bit of help as well from favorable currency.

Operator

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

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

Ed, you mentioned when you were going to talk about capital structure and so forth, but when do you think we'll sort of get a finalization of personnel and roles and so forth? And I noticed you've added a bunch of people to the Advisory Committee. Are those presumably going to be board members on the different companies? And are any of them subject to maybe joining in an operational role?

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

Yes, so we announced 10 new board members across the 3 divisions. They will become the permanent board members of each of the committees we announced them on. You probably will see 2 or 3 more members join the different boards that we still have to add to. So we're diligently working on that and interviewing and talking to people now. And by the way, who we're talking to are some really high-quality, talented people, so I'm really thrilled that we'll have that process done very shortly. And probably just to add to that, all 3 of the boards are just meeting during the last couple of weeks to go through 2-day strategy sessions. So our new members are now attending, so they're going to be well up to speed once we get to the spin of the businesses. They will not be new at it. So we've really worked out a nice process there. We are going to announce the management teams of DuPont and of Corteva in the month of September. We've always stated that's about when we would do it, 6 to 8 months kind of before the spin, so we're going to be ready to do that, you'll see that come out. And then as far as capital structure, we're in very good conversations with the rating agencies, but it is a process and we're hoping to conclude that in kind of the early-ish fall range and then we will talk in detail about that. We're planning on doing a 3 investor days or half days later in the fall. We'll get a date out on that very shortly. So we'll do one for MatCo, one for Spec co and one for Ag co and we'll be able to talk about all that at that meeting.

Operator

And next, we'll move to John McNulty with BMO Capital Markets.

John Patrick McNulty - *Crédit Suisse AG, Research Division - Former MD & Co-Director of Research in the United States Equities Division*

Maybe tied to that, if it turns out after these discussions with the rating agencies that you have some excess flexibility with your cash flow at your disposal, I guess, when you think about it, is it more valuable to you to be putting it into the current stock because I think you've certainly been vocal about it being undervalued. Or is it more important to leave it to the specific businesses so that they have flexibility when they're spin out, whether it's for M&A, buybacks or what have you. Pick. Can you give us some thoughts on that?



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

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

Well, let me give you a leaning, but I would preface it with saying that is a board decision. But I would think if we're sitting on excess cash at these kind of stock prices, I think share repurchase would be something we'd be very interested in. I think Howard mentioned in his remarks we are going to do another \$1 billion share buyback this quarter, so it's something we will sit down with the board and look at. Let me add a second point. The capital structures I think we're very confident we're going to get to where we need to be from our preliminary conversations, and I think we'll be healthy in the ranges that we told you we're going to be in. So I think we know we'll have some flexibility with where we're going to get rated anyway, so therefore maybe another way of saying it is the need to sit on a lot of cash is not something we need to do from a flexibility standpoint. We will have flexibility for these 3 companies going out, so we'll be able to address that in the near future.

Operator

And next, we'll move to Christopher Parkinson with Crédit Suisse.

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

Can you just give us an update on your portfolio review within Specialty Products and any incremental planned divestitures and just how you're thinking about the management of these separate portfolios going forward? And just also could you just give us any insight on whether or not you believe that investors are giving you adequate credit for these efforts?

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

Let me hit the portfolio and I want Marc to jump in on it. We've already -- we stated many times in Specialty that we're going to divest 5% to 10% of the portfolio. It's not where we see the highest future returns in the business and/or the growth rates that we want, which, I guess, translates into returns also. And one of the things Marc highlighted in his prepared remarks was we just did announce the divestiture of the Styrofoam business in Europe. That was about \$220 million of sales, so there's 1% out of the portfolio right there. And by the way, when you take that out, the Safety & Construction margins go up a full 100 basis points just with that move. And oh, by the way, that business happened at low returns. So there's an action. We will try to take a couple more actions pre the spin, but quite a few of the actions we want to take are going to have to be post spin because our teams are so tied up making the spins happen. The same people who have to work on the carves and all the legal entity work and all to do that. So you might see 1 or 2 other announcements from us, but the bulk of it will be right afterward. But we -- Marc's teed up with the board. They understand what we want to do on that front and we're ready to go.

Operator

Next, we'll move to Steve Byrne with Bank of America.

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

On Corteva, now that the North American selling season is over, should we expect an acceleration in the cost-cutting efforts in that business? And any structural changes between the 2 big Midwestern campuses that you have on that? And if you could just comment on your strategy on gaining market share with those legacy Dow Spinosad insecticides, what is enabling that market share gain?

James C. Collins - *DowDuPont Inc. - COO of Corteva Agriscience™, Agriculture Division*

Thanks, Steve. As we've always talked about cost synergies in the business, we said that they were a bit back end loaded in Ag in the second half of 2018 and we'll continue to see those into 2019. Most of that back half loading, though, is related to COGS. As we significantly restructured our



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

seed production footprint in both North America and Latin America, the crop that we're planting right now this year will benefit from a cost of goods as we condition it in the fourth quarter and get ready to sell that in fourth quarter and on into the first part of 2019. So a lot of that back end loading. All of those other areas that we talked about, we jumped on those really, really quickly in the end of '17 and early '18. So we're pretty well set with our footprint. That said, there are still some areas that we're looking at, some of the other corporate areas. As we begin to get ourselves ready for spin and we start to set up a fully functioning finance, HR, IT, tax, treasury organization, we'll have some opportunities to continue to fine-tune as we go forward. You mentioned the insecticide. So you saw in our results in second quarter we had 20% growth year-over-year, that's a high teens percent growth through the first half year-over-year and that is related to a few areas. First, it's debottlenecking of our manufacturing facilities, these fermentations, much higher productivity, which has given us supply that we just never had before. Second, it's better positioning of our products in the marketplace going head to head with some of the other competition that's out there. And yes, it's a sales organization that's really focused now on some of these key high-value specialty markets. And I wouldn't say regaining share, I would say establishing the right presence for those products, the Spinosad and spinetoram product line in the marketplace. If you think about our second half, that growth that you asked about is also coming from a few other products. It's coming from Vessarya, which is going to be the premier Asian soybean rust fungicide in Brazil, and with some of the excitement that we're feeling in Brazil with the soybean acres, we should benefit from that. We're also launching the Arylex cereal herbicide that I talked about. And then really exciting, a brand-new product in the industry in rice in Asia, Pyraxalt, which controls a pest that nobody else really gets at. And we've talked about having the best pipeline in the industry and we've talked about that pipeline starting to deliver. It's really showing up in our results.

Operator

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

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

Just wanted to go back to the Form 10s and the split time line. I was just wondering if there's been any progress on potential further splits and if that's even an option or if that would change the ownership structure? I'm specifically thinking about the 4 units within Specialty. Is there any possibility that you could potentially look at spinning out Nutrition or Electronics on their own earlier than expected?

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

Yes, thanks for the question, Arun. There'll be no other spins obviously before we do the three here. All the divisions have all their options open to them afterward and we've always highlighted on the SpecCo side. We have a lot of optionality with the portfolio. Having said that, well, we really like the portfolio the way it is with the portfolio realignment we did in September. It's an awesome portfolio. But it is 4 distinct, nice businesses. They're all market leaders. So we're in a nice position with a lot of flexibility moving forward. But nothing would clearly happen before we actually do these spins in the spring.

Operator

And next, we'll move to Jonas Oxgaard with Bernstein Research.

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

If we can return to the board question just a second. You've added a bunch of people, they all look like great people. But the board is -- they're kind of getting unwieldingly large. Are you planning on shrinking the overall board number at some point? And can you talk a little bit more broadly on what would the ideal board look like for the 3 Spin cos?



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

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

Yes, so Jonas, that might be a little confusing. By the way, the DowDuPont board is a little big because it was 8 originally picked from the DuPont side and 8 from the Dow side, so that's a big board at 16. Having said that, by the way, the board has functioned extremely well together, and you can see we've made a lot of decisions very fast. But the way we're teeing it up is when we split into 3 companies, each board will have 10 to 12 board members, which is very typical to staff all the committees that you have in a company this size. So we've got to get ourselves over this kind of next month up to kind of 36 board members to actually get to kind of that 11-or-so, somewhere in that range, may be 12, on each of the 3 boards. So the way we're running them, Jonas, right now is we actually do separate meetings, committee -- we call them committees right now, of the MatCo, Spec co and Ag co board, which we just did during the last couple of weeks, the 2-day strategy session I talked about and that's the group that'll continue on with that board. And then the regular DowDuPont board, the 16, meet regularly, but all of those people are going to go on to one of the 3 boards also. So it's not actually wieldy, it's -- we're getting it down to the 3 so they can start running strategically looking at things and they'll end up, give or take, 11 or 12 board members. So we have to work our way up to that 30-some number so we're ready to go. And we want to them on as early as possible so they can attend 2, 3, 4, sessions, as I said, so they're all prepped and they understand strategy and we're moving from day 1.

Marc C. Doyle - *DowDuPont Inc. - COO of Specialty Products Division*

And we're adding some really good industry experience in each of the 3 spins. So when you see the new board members that have come on, you're seeing some pretty deep experience in each of our 3 areas here.

Operator

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

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

Is Sadara still planning an IPO? And is it too early for Sadara to start thinking about expansions now that they're at full commercial operation?

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

John, this is Jim. Sadara doesn't have any plans right now for an IPO. It has the optionality obviously to do an IPO in the future. We've always retained that. But with all the other things that are going on in Kingdom, especially with our partner, Aramco, Saudi Aramco, we haven't had a plan to do anything with an IPO right now. And then as far as expansions go, obviously we'll take a look at that. Our first order of business is to get our Lenders Reliability Test done at the end of this year. And once we get through that Lenders Reliability Test and pass that hurdle, I think the teams will take a look at do we have the feedstocks we need, do we have the other things we need to look at potential expansions. We're working on the ValuePark right now. Sadara is building an EO pipeline to the ValuePark. We have customers coming in to build next to that, and so we're looking at building on neighboring plants to actually take some of the offtake of Sadara and build up capabilities in Kingdom. They may not be DowDuPont investments, but they may be third-party investments.

Operator

And next, we move on to Hassan Ahmed with Alembic Global.

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

You guys touched on the whole sort of trade side of things earlier as it pertains to obviously some of these sort of trade debates that we are hearing, so a two-part question around that. Why is that ahead of some of these tariffs and the like, have you noticed any prebuying from sort of, call it,



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

China, that's one side of it. The second side of it, a bit longer term. And obviously, over the last couple of years, prior to oil prices coming down sort of in a marked manner and then rebounding thereafter, there was this rush to sort of build greenfield capacity over here. So once oil prices came down, obviously that simmered down a bit. But this sort of renewed, disconnected oil and to natural gas pricing environment, I would have imagined that the next wave of frackers would have been announced. Do you guys internally within DowDuPont sort of are you reconsidering maybe some sort of future post 2020 investments on the ethylene/ polyethylene side? Do you see similar trends in the industry as well? Again, all parts and parcel with the implications of a potential trade war?

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

So I think on the trade topics, I haven't seen any indications of prebuying in the materials sector. I think we've seen good growth in the markets. But most of it is driven by the fact that the Chinese consumer economy has actually been pretty good for our downstream products. I think if we had seen any kind of prebuying volumes, you would have seen a different price dynamic in the Asia Pacific market than what we've seen. As it goes to next growth, obviously one of the things that we all look for in terms of next growth is the ability to access competitive feedstocks and light hydrocarbons. Natural gas liquids is the most competitive feedstocks versus naphtha right now. Of course, the only access really to that for China is to take U.S. ethane and ship it over there, which is not as cheap as it is to build here. So I haven't seen anything in that direction. The other thing that is part of this whole tariff trade discussion is if you want to build an ethylene facility in China, you have to have a local partner and so that makes it a little bit difficult for some of the players to be able to get in and have a position that will make a return for the investors. So there are several dynamics at play. I don't see any big wave coming soon. I think there are a lot of next big wave projects lined up for the U.S. Gulf Coast and where there may be even some increments in Canada, too.

Operator

And our final question today will come from Kevin McCarthy with Vertical Research Partners.

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

Jim, may be a two-part question for you, Jim Fitterling. First, would you comment on the level of planned and unplanned outages related to Freeport in the MDI force majeure, for example, that you expect in the third quarter versus the second quarter? And then, secondly, wanted to ask about ethane feedstock. We've seen some upward volatility there. How much of that is transitory versus more durable in your view? And has it changed your feedstock mix in any appreciable way?

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

Yes. So we announced the -- an outage on the Freeport MDI unit and that's scheduled to run from August to the first half of September. It's really a mechanical change that we need to make in there, some cleanout of some parts of the plant. It requires us to open it up and go in and then close it up so that's a time-consuming one. As far as planned outages around the Gulf Coast, really they're small. There's nothing coming in terms of any cracker outages. We've got the St. Charles debottleneck, and when we do that, we need to take the plant down to actually put that expansion in place. So it'll be out for a little bit. But other than that, maybe a few days here and there on a plastics plant in the fourth quarter, nothing to speak of. In terms of how the feedstock prices are moving, obviously you've got new capacity coming on right now, Exxon's up, so you've got a big pull on ethane. There's still quite a bit of ethane in rejection, I think 275, down from 450 over the last time we talked about it. But I think you're going to see ethane kind of rebound here. Propane's been running a little bit high. Right now, we're heavy light. We're cracking as light as we can and we're cracking as much ethane as we can and I think we're going to be in that situation for the foreseeable future.

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

Thanks, Jim. Before we close out the call, I'll pass it over to Ed to make some final remarks.



AUGUST 02, 2018 / 12:00PM, DWDP.N - Q2 2018 DowDuPont Inc Earnings Call

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

I'd say, overall, I feel really pleased with the team's execution in the first half of the year. It was a very robust first half, and as we said, broad based across the whole platform. If you go to our third quarter guidance, I think it's also, again, very robust, very solid guidance. If you go back when you get to study and look at Page 5 where we give you all the points against guidance, the midpoint is going to come to 17% EBITDA growth, so very robust like the first half of the year. And if you go to Page 6 and you work your way through all that, you're going to end up with a full year for DowDuPont of EBITDA growth of the mid-teens, so very, very strong, and EPS ending the year in the low 20% increase range. So feeling very good. More importantly, I think we said it's synchronized and it's really we're seeing it in all end markets around the world. If you take volume and price, they're our 2 biggest positive drivers. When you look at it by regions, North America was up 17% this past quarter, Asia was up 18%, Europe was up 10%, Latin America was up 6%, so very synchronized around the globe. We see volume and price continuing to help us. The third thing that really helps us here is the synergies. And those things have been able to really offset a very significant movement in raw materials and the 2 comments we mentioned on Ag with currency in Brazil moving against us and the corn-to-soy shift. So some negative dynamics with some really robust positive dynamics that are teeing this year up for us the way it's going. So thank you very much for joining us today.

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

Thanks, Ed, and thanks, everyone, for joining the call. We appreciate your interest in DowDuPont. And for your reference, a copy of our transcript will be posted on DowDuPont's website later today. This concludes our call.

Operator

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

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