E. I. du Pont de Nemours and Company

NYSE: DD

FQ1 2016 Earnings Call Transcripts

Tuesday, April 26, 2016 12:00 PM GMT

S&P Capital IQ Estimates

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Currency: USD
Consensus as of Apr-26-2016 12:37 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations

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Call Participants

EXECUTIVES

Edward D. Breen
Chairman, Chief Executive Officer and Member of Environmental Policy & Safety Committee

Gregory R. Friedman
Vice President of Investor Relations

James C. Collins
Executive Vice President of Agriculture Business Segment

Nicholas C. Fanandakis
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Morgan Stanley, Research Division

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Deutsche Bank AG, Research Division

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Susquehanna Financial Group, LLLP, Research Division

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Wells Fargo Securities, LLC, Research Division

Jeffrey J. Zekauskas
JP Morgan Chase & Co, Research Division

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

P. J. Juvekar
Citigroup Inc, Research Division
Operator

Welcome to the DuPont First Quarter 2016 Conference Call. My name is John, and I'll be your operator for today's call. [Operator Instructions] Please note that this conference is being recorded.

Now I'll turn the call over to Greg Friedman, Vice President of Investor Relations. Greg, you may begin.

Gregory R. Friedman
Vice President of Investor Relations

Thank you, John. Good morning, everyone, and welcome. Thank you for joining us to cover DuPont's first quarter of 2016 performance. Joining me today are Ed Breen, Chair and CEO; Nick Fanandakis, Executive Vice President and CFO; and Jim Collins, Executive Vice President responsible for our Agriculture segment.

The slides for today's presentation and corresponding segment commentary can be found on our website along with our news release.

During the course of this conference call, we will make forward-looking statements, and I direct you to Slide 1 for our disclaimers. All statements that address expectations or projections about the future are forward-looking statements. Although they reflect our current expectations, these statements are not guarantees of future performance but involve a number of risks and assumptions. We urge you to review DuPont's SEC filings for a discussion of some of the factors that could cause actual results to differ materially.

We will also refer to non-GAAP measures. We request that you review the reconciliations to GAAP statements provided with our earnings news release and today's slides, which are posted on our website.

Our agenda today will start with Ed providing his perspective on this morning's news. Then Nick will review our first quarter financial performance and 2016 guidance. Third, Jim will discuss our Agriculture business. We will then take your questions.

With that introduction, it's now my pleasure to turn the call over to Ed.

Edward D. Breen
Chairman, Chief Executive Officer and Member of Environmental Policy & Safety Committee

Thank you, Greg, and good morning, everyone. I would like to share my perspective on the first quarter, then I'll update you on our progress with our 3 critical initiatives as well as our planned merger of equals with Dow.

Overall, I was pleased with how the business performed in the first quarter. Despite continued challenges in the macroeconomic environment, we delivered operating earnings of $1.26 per share even with the last year's quarter. Excluding $0.10 per share of negative currency, operating earnings rose 8%. Sales declined 2%, excluding currency, reflecting the current environment. The weakening U.S. dollar gave us some relief.

I don't want to steal any thunder from Jim, but it's worth saying a couple of things about Ag's first quarter. Much of the quarter's strength was due to Ag. Solid execution in Ag, our largest segment, enabled a strong start to the North American corn season. I'm also very pleased with our results in the Safrinha season as we delivered strong volume growth. Nick and Jim will comment more on all that in a moment.

Looking beyond Ag, as I mentioned, most of our other segments performed well. One worth calling out is Nutrition & Health, where we had broad-based volume growth and significant operating margin expansion.

Let me give you a couple examples of new products that contributed to our growth in N&H. First, Supro, our new best-in-class isolated soy protein for dry powdered beverages; and second, our new long-life greek yogurts in China. Probiotics increased sales 30% as our productivity efforts have freed up capacity.
to respond to strong customer demand. I was pleased to see operating margins expand in 4 of our 6 segments, including progress with our global cost savings and restructuring plan.

In sum, most of our businesses exceeded our expectations for the quarter. We had a good start to the year. Yet planting is just beginning in the Northern Hemisphere, and at this point, it's too early to call the year for Ag. There are still a number of difficult macro variables, and we want to see how those factors play out.

Now let me give you an update on our progress with the 3 critical priorities I outlined when I became CEO. As a reminder, we said we were committed to shrinking our cost structure, improving our working capital performance and reducing our capital expenditures. We strongly believe we need to improve our performance in all 3 areas as we want to benchmark against best-in-class companies in all of our businesses. The encouraging part is the quality of the leadership team, including their desire to win, which has impressed me about DuPont from the start.

The point of our global cost savings and restructuring plan is to strengthen the competitiveness of our business while reducing our cost by $1 billion on a run rate basis by year-end. Consistent with this target, we plan to show you a net year-over-year savings of $730 million for full year 2016. We made good progress with this objective in the first quarter. In fact, we are exiting the quarter down about $135 million in operating costs, mainly in SG&A.

One area where we've taken significant action is corporate costs. Already, year-over-year, we are down 44% on an operating earnings basis. I applaud the teams for their hard work in getting us here. This quarter puts us well on our way toward a $200 million year-over-year reduction in corporate costs. Consistent with this target, we plan to show you a net year-over-year savings of $730 million for full year 2016. We made good progress with this objective in the first quarter. In fact, we are exiting the quarter down about $135 million in operating costs, mainly in SG&A.

Turning to working capital. Earlier, we set goals for improvement by business for 2016. In the first quarter, we launched a company-wide project to improve working capital. We see opportunity in inventory, first and foremost, but also in payables and receivables. Our first quarter results reflect our focus on working capital and capital spending, resulting in a $300 million improvement in free cash flow year-over-year, excluding Chemours. We continue to expect to deliver improvements in working capital over the medium term. That said, this year's working capital performance will reflect pressure from our cost reduction programs, including severance payments, which are necessary to support our long-term objectives.

Our capital spending in 2016 is expected to total $1.1 billion, down from $1.4 billion last year, excluding Chemours. That's a decline of 21%. We spent about $360 million on CapEx in the first quarter, and we reviewed each and every dollar before we spent it with a close eye on expected returns. Our first quarter CapEx spend is 14% below last year, again excluding Chemours.

As we work toward our planned merger with Dow and the intended separation into 3 highly focused independent businesses, I am pleased with the progress the teams are making. We achieved a number of milestones toward closing the merger in recent weeks. On March 1, we filed our initial Form S-4 registration statement and recently filed the first amendment. That process is proceeding along smoothly. The Form S-4 will become effective after we complete the review process with the SEC, which we currently anticipate will be no later than the end of the second quarter. The special stockholder meetings for both companies' shareholders to vote on the merger will take place thereafter.

We also have submitted key regulatory filings related to the merger in the major jurisdictions where we operate. We always expected a thorough review process, and we are working closely with regulators in all the relevant jurisdictions to complete that process.

We continue to expect to complete the merger in the second half of 2016, subject to shareholder and regulatory approvals. Integration planning is well under way. We have formed a Joint Integration Management Office. Dow and DuPont teams are working directly together on plans to execute the merger, capture synergies and prepare for the intended business separations. The team is working diligently to
develop execution-ready plans to ensure we can quickly integrate the merger, capture our anticipated cost
and revenue synergies and begin to operate as independent business units as soon as possible after the
merger closes. In coordination with the Joint Integration Management Office, each of the 3 businesses is
working to identify and plan for the right operating structure for their specific needs.

Another important point I’d like to make is our synergy targets for the combined company remain on
track. We have 27 teams focused on different categories of cost, and they are very clear about what
the goal is. Our confidence in the targets we established in December has done nothing but go up. After
diving into the details, we continue to believe there will be at least $3 billion in cost and $1 billion in gross
synergies on a run rate basis. We have benchmarked costs against industry peers alongside MacKenzie,
and they have confirmed that the $3 billion is achievable. We continue to expect to capture $1.3 billion in
Ag, $1.5 billion in Material Science and $300 million in Specialty Products cost synergies.

Now I’d like to ask Nick to take us through the financials and outlook in more detail.

Nicholas C. Fanandakis
Chief Financial Officer and Executive Vice President

Thank you, Ed. Let's start with the details of the first quarter on Slide 3. Operating earnings of $1.26 per
share were even with prior year and up 8% year-over-year when adjusted for currency. Solid execution in
a tough macro environment, particularly on cost savings, and a strong start to the North American corn
season in Ag positively impacted the quarter. Excluding currency, consolidated net sales for the quarter
decreased 2%. Local pricing gains in Ag and Industrial Biosciences and volume growth in Nutrition & Health
were more than offset by declines in most of the remaining segments. Currency continued to negatively
impact sales by an additional 4 percentage points in the quarter.

I’d like to highlight where we're seeing some positives from a regional perspective, particularly in our
developing markets, which represented about 30% of our first quarter sales. In the quarter, sales in
developing markets were up 5% year-over-year, excluding currency. Volume growth was primarily driven
by Agriculture and Nutrition & Health in Europe and Asia Pacific, principally China. Local pricing gains in
Latin America and Europe were a result of mix enrichment and actions to offset currency, primarily within
Agriculture.

Turning to Slide 4. Consistent with prior quarters, currency was a significant headwind to segment results.
Segment results when you exclude currency were up $0.02 per share in the quarter on cost savings, local
price and product mix gains in Agriculture and Industrial Biosciences and volume growth in Nutrition & Health.
Lower corporate expenses and interest contributed $0.05 to earnings in the quarter. Corporate
expenses on an operating earnings basis were 44% lower than the prior year as a result of our 2016
cost savings program. A lower share count benefited the quarter by $0.05. In 2015, we completed a $2
billion accelerated share repurchase program using proceeds from the Chemours separation, and we are
seeing the full benefit of this program here. A decrease in net after-tax exchange losses contributed $0.02
to earnings in the quarter. A higher tax rate reduced operating EPS by $0.04 in the quarter due to our
geographic mix of earnings.

Let's turn to the first quarter segment operating earnings analysis on Slide 5. Operating earnings growth
in Nutrition & Health, Industrial Biosciences and Protection Solutions was more than offset by declines
in the other segments. Nutrition & Health increased on a broad-based volume growth and cost savings,
which more than offset the negative currency that they saw. Operating margins in this segment improved
240 basis points and have grown year-over-year for 11 consecutive quarters.

Growth in Industrial Biosciences reflected pricing gains on new product introductions in bioactives,
increased demand for biomaterials and the absence of prior year onetime costs in clean technologies.
Operating margins improved 250 basis points in the quarter for Industrial Biosciences.

Protection Solutions operating earnings increased $9 million as lower costs and improved plant utilization
at the Chambers Works facility were partially offset by lower volumes and the negative currency impact.
Operating margins improved 300 basis points in the quarter here.
In Electronics & Communications, operating earnings decreased $20 million as cost savings and increased demand for Tedlar film were more than offset by competitive pressures in Solamet paste, lower demand in consumer electronics and a $16 million litigation expense. I’d like to highlight that while volumes in Solamet paste were down year-over-year, we did see sequential volume growth from the fourth quarter of 2015, and we grew market share following the launch of our PV19B late last year.

Agriculture operating earnings declined $37 million year-over-year as local price and products mix gains and cost savings were more than offset by an $83 million negative currency impact, lower volumes and about $40 million negative impact from LaPorte shutdown due to lost sales and inventory write-offs. Jim will provide further details on the first quarter performance with Agriculture later in the call.

Performance Materials operating earnings declined $44 million as lower costs and increased demand in Asia Pacific automotive markets were more than offset by lower demand for ethylene and ethylene-based products, lower local price and negative impact from currency. The price decline was driven by lower ethylene prices as average spot prices were down approximately 50% year-over-year and we saw competitive pressure in commoditized products.

As a reminder, the slides with segment commentary are posted on the investor center website under Events & Presentations. I encourage you to refer to those slides for further details on segment results, including our expectations for the second quarter and for the full year 2016.

Turning to the balance sheet and cash on Slide 6. We maintained our strong balance sheet position during the quarter. Negative free cash flow of $2.2 billion reflects Agriculture’s typical seasonal cash outflow in the quarter. Our free cash flow improved by about $500 million year-over-year with about $200 million of the improvement due to the absence of Chemours. The remainder of the improvement is due to lower working capital and CapEx in the first quarter. Net debt has increased in the quarter over our ending 2015 balance, which reflects our nominal seasonal shifts. Primary uses of cash in the quarter related to funding our seasonal Agriculture working capital requirements, growth investments and dividends.

Returning capital to our shareholders remains a priority, and today, we also announced that our Board of Directors has approved a second quarter dividend of $0.38 per share. Our objective is to complete $2 billion in share repurchases in 2016. However, the planned merger of equals with Dow and the associated impact from SEC rules and regulations affects our trading windows. After the shareholder vote, we'll evaluate the opportunities to enter the market and plan to make repurchases.

On Slide 7, the company now expects full year 2016 operating earnings to be in the range of $3.05 to $3.20 per share from $2.95 to $3.10 previously announced. The estimated negative currency impact for the full year 2016 is now expected to be $0.20 per share versus a previously communicated estimate of $0.30 per share. The U.S. dollar has weakened against most currencies since the estimate we provided in January.

For the full year, we now expect our base tax rate to be about 24%, an increase from our prior estimate of 23% due to the geographic mix of earnings. This results in a $0.10 headwind from higher base tax rate in the outlook versus our prior year.

Our guidance continues to reflect a $0.64 per share benefit from a 2016 global cost savings and restructuring plan.

While the businesses outperformed our expectations in the first quarter, about half of this was due to a stronger-than-expected start to the season in Agriculture. The remainder was due to the underlying performance of the businesses, and that is what we are reflecting in our revised outlook for the full year.

For the first half 2016, we expect operating earnings to be even with prior year as the timing benefits, primarily within Agriculture, from a stronger-than-expected start to North American corn season are anticipated to largely be offset in the second quarter.

We continue to expect full year net sales to be down low single digits, percent-wise, versus prior year due to the impact of currency and continued challenges in Agriculture.
Currency will continue to impact the top line as the dollar is stronger than last year against most currencies primarily the Brazilian real. Excluding currency, sales are expected to be about even with prior year. We would expect operating earnings per share growth of 17% to 23% when we take out currency, primarily driven by the full year benefit of cost savings.

We remain cautious on our outlook for 2016 as market conditions continue to remain challenging. In Agriculture, the fundamentals have not changed since the outlook we provided in January. Net farm income is declining and seed and crop protection suppliers have abundance of inventories globally. Economists are currently forecasting lower global industrial production in key markets, including the U.S., Central and Eastern Europe and China. China's economic slowdown continues, particularly with its industrial, real estate and financial sectors, impacting the Asia Pacific region.

Turning now to Slide 8. I'd like to highlight where we stand on our 2016 global cost savings and restructuring plan. As we previously communicated, we expect this plan will generate $1 billion on a run rate basis, which translates into approximately $730 million of savings in 2016 versus the prior year. We expect the plan to deliver about $0.64 per share in cost reductions, which we weighted towards the second half of 2016.

For the first quarter, our operating costs, which includes SG&A, R&D and other operating charges, declined about $135 million on an operating earnings basis. This represents a 7% decline in costs year-over-year. SG&A costs declined about $110 million or 9% versus last year on cost savings and currency benefits. Our corporate costs on an operating earnings basis decreased 44% year-over-year and highlights that the actions we outlined in December are truly generating results. We are on track to deliver our 2016 commitment of a $200 million decrease in corporate expenses, improving to about a 1.3% as a percent of sales.

With that, I'd like to turn the call over to Jim to provide an overview of the results in Agriculture.

**James C. Collins**
*Executive Vice President of Agriculture Business Segment*

Thanks, Nick. Overall, agricultural markets are playing out pretty much as we expected with farmers facing challenging economic conditions and seed and crop protection suppliers having plenty of inventory globally. So we're not seeing anything significantly different in market conditions from what we shared with you earlier this year. But even in this difficult environment, we remain focused and are executing on the variables that are within our control. And I think our first quarter performance clearly illustrates that.

Now I'm focused on 3 very clear priorities. First, delivering on our 2016 cost savings and operating earnings commitments. And our results for the quarter indicate we're firmly on track to do that. Secondly, I've been personally spending significant time reviewing our R&D programs with our research teams to ensure we're delivering on our exciting pipeline of new genetics, biotech traits and Crop Protection products on schedule. Lastly, from our announced merger with Dow, our teams are working with great urgency to create a world-leading production Ag business, and we're developing detailed plans to capture the $1.3 billion of cost synergies.

Even though this is challenging work, you can feel the excitement of the teams.

In addition to these 3 priorities, I also spend my time minimizing distractions, ensuring our teams keep their focus on delivering results for our stakeholders during this exciting time of change. And as I mentioned, our results in the first quarter demonstrated strong execution in challenging market conditions. Results were better than we expected, primarily due to higher corn area in North America, earlier timing of shipments to customers consistent with that strong start we had in the fourth quarter of 2015 and stronger sunflower sales in Europe based on the performance of our newest products. Currency, while still a significant headwind compared to last year, was also a little better than we anticipated.

What I'm proudest of is we were able to deliver 2% higher prices across the segment even in this highly competitive market environment. In seeds, a stronger mix of Pioneer's newest corn hybrids resulted in higher net corn price globally and, most importantly, in North America. In Crop Protection, we took
decisive pricing actions to mitigate the stronger U.S. dollar in Latin America and Eastern Europe, and, in fact, local pricing actions fully offset the impact of currency in Latin America.

Now in addition to local pricing gains, corn seed volumes were higher than the prior year from sales in North America, consistent with the recent USDA reports indicating higher expected corn acres this year, and in Brazil's Safrinha season. Our increases in corn and sunflower volume were more than offset by the lower insecticide sales in Latin America and in sales to other third parties. Additional offsets included the impact from the shutdown of the LaPorte manufacturing facility and from lower soybean volumes. Now most of the decline in insecticide volumes can be tied to Brazil's low pest pressure, high industry inventories and the impact of insect protected soybean varieties.

Now turning to our pipeline. As planned, we made our first sales of Zorvec fungicide for disease control in Korea, Australia and China in the first quarter. We expect Zorvec to be very competitive in the $2 billion market for blight and downy mildew control, offering potato, grape and vegetable growers consistent, long-lasting control with a favorable environmental profile. We successfully launched Leptra insect protected corn hybrids in Brazil in the Safrinha season and initial indications of performance are good. Leptra's strong value proposition is also allowing us to recapture price in that market. Strong customer interest and an aggressive seed production plan have us well positioned to ramp up Leptra to as much 1/3 of our volume in the upcoming summer season in one of the fastest technology introductions in Pioneer history. In North America soybeans, we are currently introducing varieties with the Roundup Ready 2 Xtend technology in a very limited launch. While we didn't plan for large volumes, this will allow our sales reps and customers to test the performance of these soybeans as we prepare for our full launch in 2017 pending regulatory approvals.

In addition to all of that, we had a really exciting announcement this past week. We announced our intention to commercialize our first corn hybrids developed through the application of CRISPR-Cas advanced breeding technology within the next 5 years. While this is a first step, our initial CRISPR-Cas offering allows us to lay a solid foundation for success for future products developed with this important innovation in plant breeding.

We now anticipate results for the full year to be a little stronger than what we shared with you in January, primarily due to the recent weakening of the dollar against many global currencies, including the reais, and from higher corn-planted acre. Now this will partially be offset by the shift of a portion of our fourth quarter seed sales to first quarter 2017. This is a result of the enhancements we are making to our Pioneer business as we transition to an agency-based route-to-market approach in the Southern U.S., similar to the advantaged approach we take in the Midwest. Additionally, we'll have some unplanned costs as a result of our recent decision regarding the LaPorte insecticide unit, from the write-off and disposal of in-process inventory and to dismantle the facility.

We had a good start to the year. We have a lot going on in Agriculture, and I'm very excited about the progress. I'm confident the team is focused on delivering on our commitments, preparing for the merger and advancing our pipeline.

Now I'll turn it back to Greg.

Gregory R. Friedman
Vice President of Investor Relations
Thanks, Jim. We'll now open the line for questions. John, if you could please provide the instructions.
Question and Answer

Operator

[Operator Instructions] And our first question is from David Begleiter from Deutsche Bank.

David L. Begleiter
Deutsche Bank AG, Research Division

Jim, there's been some talk about aggressive seed price discounting in the U.S. this season. Can you address those concerns and how you're addressing, though, that issue?

James C. Collins
Executive Vice President of Agriculture Business Segment

Yes, great. Thanks for that question, and we know those comments are out there. As we said back in January, we're -- we just weren't seeing much change in the conditions in the marketplace from where we launched back in August or September. So we've had our pricing cards out there for a number of months. So when I look at pricing, I think of it -- or in that area, I think of it in 3 specific ways. First is card price, and that's that year-over-year same technology, same market card pricing. And as we said back in January, our card pricing is generally flat year-over-year. The second impact in our numbers then would be due to mix. And we're seeing strong demand in our order book for our newest technology. About 50% of our lineup in North America is from genetics that we've put in the market in the last 2 years. So as growers have a chance to look at that 2 consecutive years in our yield trials, they really jumped on that. So we're seeing a nice lift in overall mix. And then last would be in the discounting area. And so these discounts come in a number of different areas whether it's early -- our early buy discounts or cash discounts. And overall, I would say we're seeing maybe a slightly elevated level of discounts, but nothing really out of the ordinary than you might expect. Folks took good advantage of some of the programs that we had out there. I would also remind you that our direct sales model in North America gives us great visibility of our products and our pricing, especially at that net price level. So we see almost on a real-time basis purchases and what's going there. So I think overall, what this speaks to is a strong focus by our organization and an execution intensity in really driving the plan that we put out there back in August and September.

David L. Begleiter
Deutsche Bank AG, Research Division

Very good. And just -- and Nick, just on Performance Materials, can you look at the business ex ethylene, the underlying business due -- this quarter?

Nicholas C. Fanandakis
Chief Financial Officer and Executive Vice President

Yes, when you look at the Performance Materials business, ethylene, obviously, did have an impact because spot prices are so much lower, David, as you know, on a year-over-year basis, like 50% down. But if you were to take that out, the automotive segment was up slightly in Asia, almost 1 point; Europe up 1.7; North America was kind of flattish auto builds. But we did see a fairly good demand outside of the ethylene impact that you saw within that segment.

Operator

Our next question is from Jeff Zekauskas from JPMorgan.

Jeffrey J. Zekauskas
JP Morgan Chase & Co, Research Division

Ed, it sounded like you are optimistic about working capital for the year and Agriculture is coming in pretty much the way that you thought it was. So do you have a working capital target, how much you think things will better year-over-year, either inclusive of the titanium dioxide separation or without it?
Edward D. Breen
Chairman, Chief Executive Officer and Member of Environmental Policy & Safety Committee

Yes, the -- look, the way -- we just introduced our working capital programs in the first quarter. So we just got those launched. We were studying in detail in the fourth quarter what we thought the opportunity was. And over the medium term, as I think we said last time, the opportunity looks like it's a good $1 billion to $1.3 billion, somewhere in that range, what I call more best-in-class performance. So we have a big opportunity there, mostly the biggest piece in inventory so we're very, very focused there. And we are going to have some headwind this year, as I mentioned in my prepared remarks, because of severance costs and all that. So -- but again, that's to the benefit of the company going forward. But -- this won't happen just this year, but we clearly will have traction this year. I think as you saw in the first quarter, we had slight improvement already in working capital and generated an additional $300 million of free cash flow this year over last year also because CapEx by the way was lower by 14% year-over-year. So -- and we're starting to get really good focus. Nick and I had operating reviews with every business over the last week and working capital is a big part of the conversation with the teams. So I'm feeling confident we'll build momentum as the year goes.

Jeffrey J. Zekauskas
JP Morgan Chase & Co, Research Division

The CapEx for the year is supposed to be $1.1 billion, but you spent $360 million in the first quarter, so you're annualizing at $1.4 billion. Why was the CapEx so high in the first quarter? What did you spend on? And then do you really expect it to sharply drop in the second?

Edward D. Breen
Chairman, Chief Executive Officer and Member of Environmental Policy & Safety Committee

Yes -- no, if you look at back in last year, that -- our first quarter is always our high quarter the way we account for it. So -- and by the way, I think even having said that with us at the higher -- this number this quarter, we're still -- we're 14% below last year. So we're trending properly. We said we'll be down 21% for the year with CapEx. So when you look at our second quarter, there's a major drop-off in CapEx spending in the plan. We're more front-end loaded because of maintenance work that happens in the year -- beginning a year and just the seasonality of it. So we will definitely nail the $1.1 billion.

Operator

Our next question is from Don Carson from Susquehanna Financial.

Donald Carson
Susquehanna Financial Group, LLLP, Research Division

Follow-up for Jim on Ag. Jim, Crop Protection was down 18% sales in -- year-over-year in Q1. How do you expect that to unfold over the year? And as you look at the year as a whole, are you expecting corn seed share to be up in North America? Or are you just being up in line with the increased market acreage?

James C. Collins
Executive Vice President of Agriculture Business Segment

Let's talk about Crop Protection first. You're right, we did see some pretty significant declines in volume in the first quarter. That was mostly tied to the insecticide business and the bulk of that in Brazil. And we're still chasing 2 conservative years of low pest pressure there. We're feeling the impact of the insect protected varieties of soybeans that are in that market. And overall, I'd say channel inventories there are still pretty elevated based on the 2 years. In our insecticide business as well in Crop Protection, we're feeling the impact of the LaPorte shutdown that we had. Most of that is related to Vydate. We have essentially replaced all of the methomyl that we had been selling in previous years now through third parties, but it's just been really tough to find good quality sources of oxamyl. So you're seeing some of that year-over-year. As we get into the second half of the year, we continue to drive the launches of Cyazypyr around the world. If I separate Brazil, Rynaxypyr sales growth -- has grown volumes every year since its launch, and we'll expect to see good inroads. And I would say, our Crop Protection business in
North America started off pretty strong here this year. Looking at the on-the-ground sales versus our out-the-door business, we feel really good about our penetration there. It's still early in the season to talk about full year. We still have a lot to go. And when I think about corn share now, again a little early to call share. Yes, agreeing with you, no doubt we're seeing volume increases in North America consistent with that USDA report on the 94 essentially million acres. We're seeing volume growth based on our new technology, and our teams are going to stay really focused. But like I said, it's way too early to talk about seed share. As of today, we're about 30% planted in North America. That is elevated. Normally, we'd be about 16% for this time of the year. And again, you saw some of that volume increase flow through in our first quarter. But we'll see how things shake out around share for the full year.

Donald Carson  
_Susquehanna Financial Group, LLLP, Research Division_

Jim, just to clarify, so you think Crop Protection will still be down for the year like double digits? So your -- all your gain and more in Ag operating income is coming from the seed side?

James C. Collins  
_Executive Vice President of Agriculture Business Segment_

Yes, A little early to size the Crop Protection overall full year, but I would expect it to be down year-over-year. Again, primarily, we're still working to replace of the oxamyl volumes and we're still struggling in that Brazil market around insecticide.

Operator

Our next question is from Jonas Oxgaard from Bernstein.

Jonas I. Oxgaard  
_Sanford C. Bernstein & Co., LLC., Research Division_

A question to -- your R&D seems to be down about 10 percent-ish, yes. Wondered if you had some color on where -- well, what are you targeting? And how is that playing out?

Edward D. Breen  
_Chairman, Chief Executive Officer and Member of Environmental Policy & Safety Committee_

Yes, Jonas, the -- it is down about 10%. That was a part of our whole program, our cost reduction plans. And, I mean, look, just to tell you high level, we reviewed every major project spend, and the R&D management teams made those decisions as we went. But we also kept in mind -- with the impending merger coming down the road, we really looked at programs. We also thought we were going to be double-counting, double-working along things like that to get there. Interesting, and I have made this point before, our R&D had ramped up the last 2.5 years. I'd say fairly significantly in such a short period of time, the reductions we made, which were mostly done within R&D, really put us at about this run rate, though, this company has historically run at on R&D, which I'm very comfortable with. Kind of like our 10-year average run rate on a percentage of sales basis is about right where we've always been. So that's kind of where we're ending up.

Jonas I. Oxgaard  
_Sanford C. Bernstein & Co., LLC., Research Division_

Very good. And any particular programs you discontinued? Or it's just across the board?

Edward D. Breen  
_Chairman, Chief Executive Officer and Member of Environmental Policy & Safety Committee_

It was programs in each of the businesses that we were concerned with the payback on, and that's really how we look at it, on returns, and looked at each business, all major programs, and that's how we got there.
Our next question is from Frank Mitsch from Wells Fargo Securities.

**Frank J. Mitsch**  
*Wells Fargo Securities, LLC, Research Division*

Given the nice results, Nick, I’m guessing that takes the sting out of the breathing room waiting for you.

**Nicholas C. Fanandakis**  
*Chief Financial Officer and Executive Vice President*

That's only rumor, Frank.

**Frank J. Mitsch**  
*Wells Fargo Securities, LLC, Research Division*

Hey, as I think about the commentary regarding the tough macroenvironment and the global IP slowing, taking a look at your volumes, down materially in Q3, down just 1% in Q4 and here down 2%, and it’s looking like you have a little bit easier comps in Q2 and certainly Q3 stepping up in front of us. So how should we be thinking about DuPont's ability to maintain volumes or perhaps even grow volumes? But -- or is it just too tough of an environment out there? And how would you answer that question?

**Edward D. Breen**  
*Chairman, Chief Executive Officer and Member of Environmental Policy & Safety Committee*

Well, I -- look, there's a bunch of angles on it because it depends by business. Some of the businesses looks like growth is going to be very nice here and some product introductions in the second half of the year. But let me just start by overall saying to you we're still counting on the year being relatively flat from a volume, price or an organic standpoint as we move forward. So if we had a minus 2 in the first quarter, just some slight improvement kind of in the second half of the year, and then it really depends by business. As you look out what it's going to be in Nutrition & Health, obviously good. We're seeing really broad-based growth there. And by the way, the probiotics area is really hot, like 30% growth, and we're actually getting more product out the door, some more efficiency in our facility. So that's a good sign and should continue not just this year but into the future. And then on the IB side, we're still counting on growth for the year in that business. And then we have launches in a bunch of our businesses like Leptra and other products. So we're feeling good as we look out at the pipeline that we'll actually pick up a little bit more here and be running more flat on a revenue line basis. And I'm not planning or looking at anything past that. I want the company to plan around that. I don't think it's overly conservative. But if we plan around it, we'll make some smart decisions. If we see upside later in the year, the more the better.

**Frank J. Mitsch**  
*Wells Fargo Securities, LLC, Research Division*

Okay. So the viewpoint is it's not overly conservative, but it will -- you have a lot of things moving up and, I guess, a little bit down. Hey, Ed, in describing the Dow transaction and the shareholder vote coming in Q3, which I think may have been a little bit later than what I had originally thought and certainly closing before the end of the year, does this give you enough -- I'm curious how -- what would be the lag between when the shareholder vote takes place and when you actually close the transaction? And are you looking to complete a $2 billion share buyback within that window? Or is that just something that can be executed until December 31 regardless of if it's Dow, DuPont or just DuPont alone?

**Edward D. Breen**  
*Chairman, Chief Executive Officer and Member of Environmental Policy & Safety Committee*

Yes, I'll take the first part and let Nick handle the share repurchase part. We're -- just to clarify the dates, we're looking at a shareholder vote at the end of second quarter, somewhere in that time frame. Looks like the time line along with the S4 filings and all that where we just made our comment back. So that looks like it's around that time frame. And then I hate to put an exact date on it, but I would say that we're shooting for October, November kind of close of the transaction. So both end of second quarter, shareholder votes by both Dow and DuPont shareholders, October, November close. We're in great shape
on all our filings in the key jurisdictions around the world. And the big ones, China, Europe, Brazil and obviously the U.S., all that's in motion and so -- for the timeline, where we needed to be to try to hit those dates. So we're in good shape.

**Nicholas C. Fanandakis**  
*Chief Financial Officer and Executive Vice President*

And for the amount, Frank, like, that's a -- we're going to have the vote and we'll evaluate the opportunities to enter the market. And our plan, obviously, is to make those repurchases. We are going to be limited by trading windows, even after the vote, from normal blackout periods relating to earnings. So the end state of when that merger takes place will influence the amount of time we have available to us to make those purchases. We can make the purchases as long as we're DuPont Company. And once it forms DowDuPont, well, then, obviously, that would be a decision that would have to be made by the board of that company.

**Operator**

Our next question is from Vincent Andrews from Morgan Stanley.

**Vincent Andrews**  
*Morgan Stanley, Research Division*

I'm just wondering, the 93 million or 94 million acres of corn in the U.S., I mean, obviously, it's going to be helpful volumetrically this year. But how you sort of assess the potential hangover from that if we have decent weather over the summer? You're all worried about having lower commodity prices in the fall and to next spring. And given that it's already a pretty competitive operating environment, I guess I'm just curious what your thoughts are there.

**James C. Collins**  
*Executive Vice President of Agriculture Business Segment*

Yes, I think it's a really great question. There's no doubt that our order book and our volumes in the first quarter indicated stronger increases in corn area in the U.S., and that's consistent with that USDA report. Now our original guidance for the year assumed a slight increase. So I would agree with you we're feeling some of that lift. However, the weather is always a big element here, and we've seen a wet period here in the Midwest. Last couple of days have been great. We've seen planting jump. I think we're about 30% planted as of today, and that would be consistent again with what we're hearing, that we're probably slightly earlier this season than the historical average, which would be more about 16%. Historically, though, the planted acres don't always equate to yield. We could still see some issues this summer, especially during pollination where we know we can really take the top off of yield on any of those crops. So kind of like you, we're in a wait-and-see mode. If weather's perfect and we get 94 million acres, you're right, we'll continue to see commodity prices at that low end of, I would say, what I'm calling the new normal range of that $2.20 to $4.20 kind of operating range. And that will continue to put stress on net farm income and keep farmers really focused on how do they get the most productivity off of every one of their acres.

**Vincent Andrews**  
*Morgan Stanley, Research Division*

Okay. And then if I could, just a follow-up on Solamet. I heard that volume was up in the quarter, but it seems like pricing is still weak from a competitive perspective. If I remember back to 4Q, I think you said there was sort of a dual track of innovation coming this year where some came, I think, in the first quarter and more was coming later on. So how do you assess your performance so far? And what should the slope of the line be through the balance of the year?

**Edward D. Breen**  
*Chairman, Chief Executive Officer and Member of Environmental Policy & Safety Committee*

Yes, the Solamet, if you look at it year-over-year, it's still down very significantly from a share standpoint. So that compares the big part of the performance difference you see in Electronics & Communications over
the year. But on a sequential basis, we did have market share improvement. We thought we bottomed out in the fourth quarter and we did bottom out in the fourth quarter. We did have a product introduction at the end of the year, and that's what we're picking up share on. We're expecting the next introduction by midyear, and we think that'll put us in the lead here from a technology standpoint and continue to gain share. So again, very off from a year ago but now picking up and starting to pick up share.

Operator

Our next question is from Steve Byrne from Bank of America.

Steve Byrne  
BofA Merrill Lynch, Research Division

Our Corn Belt channel checks have indicated that Pioneer has gained some traction this year tying the financing on seed sales to Crop Protection. Chemical sales, can you comment on how much of a benefit that's been for you given our channel checks indicate pricing is broadly down and yet you're reporting some corn seed pricing to be modestly up?

James C. Collins  
Executive Vice President of Agriculture Business Segment

Yes, Steve. So you're right, we're always looking for opportunities to collaborate between our Pioneer and our Crop Protection organizations. If you'll remember back from the Bank of America Ag Conference, I talked a little bit about that collaboration. This is about looking at our Crop Protection share on -- with our key Pioneer customers and being able to offer a broad portfolio of solutions. So collaborating with them up front to think about how do we tie, how do we connect the best technology that we can to that acre opportunity for grower productivity. If you do look at North America, you're right, our price is up in the market. And as we said to you, we're attributing that to a couple of areas. Mostly, we think it's on new technology. About half of our lineup in North America is brand new in the last 2 years. And you'll note that we do impact trialing and even on-farm trialing for a couple of years ahead of time so growers get a chance to take a good look at new genetics before they commit fully. And so a big part of our lift in North America is that they went all in on a lot of that new the technology this season.

Steve Byrne  
BofA Merrill Lynch, Research Division

And would you say that lift could be accelerated post the merger with Dow where your Crop Protection chemical platform would be broader at that point?

James C. Collins  
Executive Vice President of Agriculture Business Segment

There's no doubt that we're excited about a broader portfolio of offerings. We'll be able to offer much more choices to growers out there in the marketplace. And it's a little too early for us to begin to speculate on how we might execute against that, but yes, no doubt that there will be more choices out there.

Operator

Our next question is from P.J. Juvekar from Citigroup.

P. J. Juvekar  
Citigroup Inc, Research Division

In electronics, you saw 9% volume drop. And you talked a little bit about Solamet paste. So how much of the decline was in solar [ph] versus how much of it was in consumer electronics? And then in consumer electronics, what are the products where you are seeing these declines?

Nicholas C. Fanandakis  
Chief Financial Officer and Executive Vice President
So if you look at the pieces in PV, P.J., there's an element of the photovoltaic was very strong. Our Tedlar film volume grew in the Tedlar film side of the house. Now there's no doubt, as Ed already mentioned, that from a Solamet paste side on a year-over-year basis, a significant change in volume on that product line. Consumer electronics was weaker. We did see weaker demand, and we actually anticipate that to continue in quarter 2 and for that to turn in the second half of the year. The exact breakdown of how much is electronics versus how much is PV, I don't have that at my fingertips right now.

**P. J. Jouvekar**  
*Citigroup Inc, Research Division*

Okay. And then jumping to your free cash flow. If you look back, free cash flow define as operating cash flow minus CapEx. That's declined materially in the last 3 years compared to prior levels. And so given that -- and given your significant new cost cutting, do you have any specific goals for free cash flow this year?

**Nicholas C. Fanandakis**  
*Chief Financial Officer and Executive Vice President*

Specific targets, is that what you said, P.J.?

**P. J. Jouvekar**  
*Citigroup Inc, Research Division*

Yes, specific targets for this year.

**Nicholas C. Fanandakis**  
*Chief Financial Officer and Executive Vice President*

Well, what we have is a very active plan in place now around working capital improvements, which is going to be a key element to generating additional cash flow from operations as we look at that. And as you already heard, we have reductions in our CapEx. So all of those programs that are in place are going to be generating improvements around the free cash flow line. We haven't quantified the total impact in the current year yet. We've talked about it more in the medium time period of the impact those programs are going to have.

**Operator**

And our final question comes -- our final question would be Stanley [indiscernible] From Berkeley Research Partners [ph].

**Unknown Analyst**

Ed, do you still expect to be able to achieve the split into 3 businesses within 18 to 24 months when the mergers close? And then you've made comments in the past that the corporate overhead at the 3 separate entities would not be higher than that at the parent. I'm wondering if that's still your expectation.

**Edward D. Breen**  
*Chairman, Chief Executive Officer and Member of Environmental Policy & Safety Committee*

Yes, we're definitely planning the, say, in the 18- to 24-month period. We're really -- we have a lot of teams going that are already doing some of the work to help us out on that time line. As I think we've mentioned before, we've already started the financial carve-out work, so we'll get way ahead on that part of the schedule. So yes. But that timing in the 18 to 24 months, we're comfortable with. And obviously, we'd all like to pull that in if we can, but that's the time line rolling now and we'll keep working that as we go forward. And your second part is the...

**James C. Collins**  
*Executive Vice President of Agriculture Business Segment*

Corporate overhead.

**Nicholas C. Fanandakis**
Corporate overhead.

Edward D. Breen  
Chairman, Chief Executive Officer and Member of Environmental Policy & Safety Committee

Oh, corporate -- yes, no, our plan is -- with the reductions we've done here, our plan would be -- and by the way, I did this in my prior life, we're going to keep the overhead percent of sales down where we're getting them to with the reductions at both companies that we're making as we speak. So to me, more of a world-class percent. Our corporate overhead is approaching 1% of sales. And we're -- as I think Nick mentioned, we're down to 1.3% of sales with the actions we've taken. So we're kind of getting in that ZIP Code, and that's where we plan to be with each of the companies.

Unknown Analyst

Okay. And then a follow-up on that. You mentioned losing out on some insecticide sales in Latin America due to the presence of treated corn. Outside of Latin America, are you seeing the crop chemical category lose out to seed demand just given how tight grower margins are? So are you seeing that dynamic anywhere outside of Latin America?

James C. Collins  
Executive Vice President of Agriculture Business Segment

Yes. Well, outside of Latin America, not that I'm -- not that would be remarkable here. As I think about how the season is unfolding, we're excited about the start to North America. We're seeing, as I mentioned, good flow-through to on-the-ground sales versus out-the-door. And our business in Europe, especially in Eastern Europe, had a strong start to the year. So a little early for Asia. A little more seasonal effect on Asia as we get further into the year. But right now, it's all about Brazil.

Gregory R. Friedman  
Vice President of Investor Relations

Well, this now concludes our call. Thank you for your interest in DuPont, and thank you for joining us today.

Operator

Thank you, ladies and gentlemen. You may all disconnect at this time.
Disclaimer
Important Information About the Transaction and Where to Find It

In connection with the proposed transaction, DowDuPont Inc. (f/k/a Diamond-Orion HoldCo, Inc.) (“DowDuPont”) has filed with the Securities and Exchange Commission (“SEC”) a preliminary registration statement on Form S-4 (File No. 333-209869) (as may be amended from time to time, the “Preliminary Registration Statement”) that includes a joint proxy statement of The Dow Chemical Company (“Dow”) and E. I. du Pont de Nemours and Company (“DuPont”) and that also will constitute a prospectus of DowDuPont. These materials are not final and may be amended. Dow, DuPont and DowDuPont may also file other documents with the SEC regarding the proposed transaction. This document is not a substitute for the joint proxy statement/prospectus or definitive registration statement or any other document which Dow, DuPont or DowDuPont may file with the SEC. INVESTORS AND SECURITY HOLDERS OF DOW AND DUPONT ARE URGED TO READ THE PRELIMINARY REGISTRATION STATEMENT, THE JOINT PROXY STATEMENT/PROSPECTUS AND THE DEFINITIVE VERSIONS THEREOF AND ANY OTHER RELEVANT DOCUMENTS THAT ARE FILED OR WILL BE FILED WITH THE SEC, AS WELL AS ANY AMENDMENTS OR SUPPLEMENTS TO THESE DOCUMENTS, CAREFULLY AND IN THEIR ENTIRETY BECAUSE THEY CONTAIN OR WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION AND RELATED MATTERS. Investors and security holders may obtain free copies of the Preliminary Registration Statement and the definitive versions of these materials and other documents filed with the SEC (when available) by Dow, DuPont and DowDuPont through the web site maintained by the SEC at www.sec.gov or by contacting the investor relations department of Dow or DuPont at the following:

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Important Information About the Transaction and Where to Find It
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