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DowDuPont Inc. NYSE:DWDP

Company Conference Presentation

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Call Participants

EXECUTIVES

Edward D. Breen
CEO & Director

ANALYSTS

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

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Presentation

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

So good morning, and welcome. Thanks for joining us. Here, we have DowDuPont and Ed Breen in what I think is the first fireside chat since the merger. It's a long time ago now. So I'm Jonas Oxgaard covering U.S. chemicals and DowDuPont. I don't think Ed needs that much introduction. If you don't know who he is, then, well, I don't know what you're doing here. So with that, Ed is going to do a few slides and prepared remarks, and then we'll go to Q&A. As always, there are little cards on the table in front of you. Please write down the questions. Hold off on the air. We have assistants who are wandering the room, collecting them and handing to me. So with that, Ed?

Edward D. Breen
CEO & Director

Great. Thanks, Jonas. It's great to be here with you at the conference. I always consider this one of the very best conferences and certainly one of the best analysts in our sector, so great to be here for the fireside chat today. I'm just going to do 5 charts with you just to give you a little bit of an overview where we're at, and then obviously save 90% of the time for any questions that you have.

Before we get started, our safe harbor statement, just make sure you read that. And let me talk about where we're at with our results and numbers at this point in time. I think that as you can see, the company has been executing very well. We're running the businesses well. We're delivering on our synergies. In fact, ahead of the pace that we had committed to. And we are rapidly moving towards I call the big event, the separation and the 3 world-class public companies.

Importantly, we had another solid quarter here, as you can see. Adjusted EPS increased 7%. More importantly, to me, though, and I think the key is our sales were up 5%. But if you take out the Agriculture business because of the shift of our business from the first quarter to second quarter because of weather, our sales grew 15% across the rest of the platform. And to put that in perspective, that is many, many, many end markets. It was both every geography grew significantly. Every end market except like maybe 1 or 2 grew significantly. So 15% sales growth ex Ag, and I'll come back to Ag in a moment.

Operating EBIT grew 6%. But again, if you take Ag out of it, our operating EBITDA grew 26% across the MatCo platform and the SpecCo platform. So we're getting incredible leverage through the machine for 2 big reasons, obviously. We're running our factories and capacity utilization much better, and we're continuing a lot of focus on that. And obviously, we're taking a lot of cost out of the system with our synergy program that we have.

The only real headwinds we had in the quarter were all weather related. I'd say there were 3 of them. One was clearly the major shift in sales on Ag, as I mentioned. We had -- construction end markets were a little light again because of weather. We see them coming back nicely for the year. And we had freezing conditions down in the Gulf Coast, which -- with a few of our big facilities that had some downtime with them. But really, they were the only kind of, I'd say, weak spots that we saw and all, again, weather related.

The good news, by the way, on the Ag business, we told you that we would mostly make it up by the time we finished the first half of the year. The shift has happened, and the USDA report came out last night. And plantings are now 92% complete, which, interestingly, considering we were delayed a month, 92% was actually a couple points above the 5-year average of 90%. And the average last year was 90%. So as of yesterday, we're actually ahead on that. So we can sort of check the box that, that clearly was the case, and we feel very confident in the forecast that we gave.

The other point I'd mention here, again, you're seeing a leverage because in the quarter alone, we took out $300 million of cost that hit. And we now expect our synergies for the year to be up to $1.2 billion from previously we guided to $1 billion. So we're well on our way on the growth on the cost synergies and

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with the big focus now moving forward on our $1 billion of EBITDA opportunity we have because of growth synergies that we're working on across the 3 platforms.

The time line is moving along, as we said. Dow will separate at the end of the first quarter of '19. And 2 months later, we'll do the separation of Corteva from DuPont to create the 3 stand-alone companies. And starting in the fall, you'll start to see the Form-10s come out. The first one will be the Dow Form-10, and then sequentially following that are the others. So we're coming up on the time. We are starting to get a lot of detailed info on the companies' capital structures and a lot more things that we can talk about at that point in time.

Let me spend a moment on the growth synergies because that's what I'm most excited about. The cost to me is easy. We're tracking it. We have over 800 programs. We're going to make it happen. And highly confident, but the exciting part for the organization is the growth piece. And in Corteva, we are taking advantage of the increased market access we have based on the broad set of products by bringing together DuPont and Dow's portfolios. We're driving opportunities through actions such as enhancing our CP offerings by leveraging a large proprietary portfolio of crop protection access. So that's a real big opportunity for us. Additionally, we're establishing new business models by executing our multi-brand, multichannel strategy that you heard we started to announce and bring out and also establishing our new global retail seed brand called Brevant. So we're way ahead of where we thought we'd be. We got a lot of those announcements out during the last month, and we're really excited about that.

For the new DuPont, I'm really excited because of the portfolio shift we did back in September. We've really created one heck of a -- I think an interesting specialty company with the 4 platforms that we have. But we're really taking advantage of a lot of cross-selling opportunities. Just an example, one of the big ones is we're really converging on our semiconductor Interconnect solutions businesses and really packaging going to our end customers together. Now that they're together, we have our construction product businesses now all together, and we are pursuing a broader offering to those customers. One of us use -- happened to be bigger in the housing market. The other company happened to be bigger in the commercial market. And we have strength now in both with a broader set of platforms. And we're really excited just to give you one other example with the pharma market we have in our nutrition and health business by bringing DuPont's expertise together with a significant business Dow had and oh, by the way, bringing FMC in, which had a significant business in the pharma business. It's a high growth, over 10% growth type business with very, very high margin. So great opportunities there.

And for the new Dow, the real key here is the integration of DuPont's ethylene copolymers enables us to provide a one-stop shop for packaging customers, one of the broadest suite of products -- differentiated products across foods, specialty and consumer packaging applications. So we're really excited they're bringing that business in. And by the way, that business just happens to fit perfectly with Dow because this is their expertise, and it was a great business for DuPont but it was somewhat of a one-off business for us in the portfolio.

So just let me conclude with I'm really excited. We do have strong momentum at this point in time. Our sales are clearly outpacing global GDP, and it's been doing that for the last 3 quarters. Our innovation pipeline is pumping out more products than the companies have ever put out before. And most importantly, we're tracking our ROIC very, very closely on all our new product innovations. I think this is more of a focus than a change for the companies than we've ever had before.

As you can tell, we're clearly focused on our cost synergies, the $3.3 billion coming out of the system. Totally within control of the management to do that. Excited about the growth synergies.

And one other thing I'd like to stress in closing, we've really scrutinized the CapEx programs across all 3 platforms. We reviewed it 3 weeks ago with the board. We've laid out a 3-year plan, and I'm very pleased with where we're at. They were incremental-type CapEx programs. There's no moonshots here, and they all have really nice, I think, solid returns and very safe programs. So I'm very excited where we're heading there also, which should clearly help with the cost takeout and what we're doing on our CapEx. And then it'll really continue to improve the ROIC of all 3 of these businesses as we launch them by this time next year.

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With that, I'll stop, and we'll just go to Q&A. Thanks.

Jonas I. Oxgaard
Sanford C. Bernstein & Co., LLC., Research Division
Thank you. As a reminder, hold up cards if you have questions, and we'll collect them, give them to me.

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Question and Answer

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

But with that, so one of the questions. I -- you've seen go on about 2,000 times and you're sick and tired of it, but I'm going to ask anyway. What does staying involved with all 3 companies mean? How are you planning on staying involved with the 3 companies when the -- after they spin?

Edward D. Breen
CEO & Director

Yes. So look, we'll make -- we're going to make management announcements in the August, September time frame. And we did make one very -- 2 key announcements. But on the Dow side, we announced Jim Fitterling is going to be the new CEO of the company. We felt we need -- wanted to do that for the employees and all because of Andrew Liveris' retirement and Andrew's actually done as a Director at the end of this month. So we made that announcement. We also made the announcement of the new General Counsel at Dow during the last, I guess, week or so, which was a great pick, by the way. And so anyway, the rest of the announcements, we're going to make in that August, September time frame. And definitely staying through spin, as I said, and I'm definitely going to stay involved afterward. And I said I'm going to stay actively involved, but no more until we hit that time frame.

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

Okay. I was thinking about Tyco, though. When you split up Tyco, you did not stay involved with Covidien or Tyco Electronics. You didn't stay involved with ADT. What was different then with now?

Edward D. Breen
CEO & Director

Well, I saw that Tyco was interesting. I stayed very involved with ADT. In fact, we publicly announced I had a consulting contract, which was the way to handle it because we felt ADT needed some strategic focus and some things could happen. So I stayed involved with that while I continued as Chairman of Tyco.

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

Okay. What about the Covidien and Tyco International?

Edward D. Breen
CEO & Director

I did not stay involved.

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

Okay. And is there a reason why you didn't stay involved with them but you plan on staying involved with...

Edward D. Breen
CEO & Director

No. It's just circumstantial where we're at. And what I said, look, let me -- I want to stay involved where I can really add a lot of value for our shareholders. So in Tyco, I didn't feel like I need to be involved everywhere. I don't think I needed to be involved in everything with the new 3 companies going forward.

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But there are areas I really think I could be helpful and focused on those areas, so that's what I want to do.

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

Okay. One of the things -- so you brought up the 15% sales. You brought up innovation pipeline being accelerated. So the first question, how much of those sales increase is just new products coming out? And the follow-up question to that is, what's driving the rest? And what's driving the new innovation?

Edward D. Breen
CEO & Director

Yes. So there was a big fundamental shift at, what I'd call, what's going to be the new DuPont businesses. And this is what's really helping our returns. We -- when I got to the company, we killed almost all of what I'd call the moonshot projects. And by the way, the moonshots cost the most money and they take years, and I didn't feel comfortable with most of them. Nevada is a great example. We wrote Nevada off. It was probably the biggest spend in a single project the company had done in quite a few years, and I didn't like the returns. And so what we've done, Jonas, we've really gone through a very disciplined look at our innovation pipeline, and we're really closely scrutinizing and tracking programs. And most of our projects now are $10 million, $20 million, $30 million projects. They're safe. It's hard to blow those. It's easy to track them. They're just less risky. And so we're -- we launched last year about 20% more new products than the year before. And this year, we'll launch about 25% more than we launched last year. And then when you're launching at that pace, you're getting margin. You're bringing something to the market that's needed and therefore, you're capturing better margin. And you can see it in this shift in the mix of business that we're getting out of each of the platforms. And you're seeing our gross margins consistently go up because of it. And of course, we're getting the leverage on the rest of the P&L because of all the costs coming out of the system. So if we keep that discipline across the platform, I just think that's a homerun, way to run the company. And so that's what we've instilled. And we have a couple that, I'd say, are semi moonshots, but I feel very good about those. But there's literally 2 left.

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

Okay. Can you talk about what they are?

Edward D. Breen
CEO & Director

Well, one of them is a light -- we're light-weighting plastic, and you've read about that for -- whether it's soda bottles and things like that. It's more renewable, friendlier for the environment and all that. So that's a project we've been working on. I won't say the customer, but a very, very large name you would know. The customers are working hand-in-hand with us in that area to give you an example.

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

Okay. After the portfolio review, you got companies more -- much more focused on, well, the one thing they're supposed to be doing. But they all are, as far as I can tell, aiming for completely different structures, different cultures. How are you fostering that split within the big house of DowDuPont?

Edward D. Breen
CEO & Director

Well, it's fascinating. By the way, the portfolio shift, I think, was a really monumental move because I think it makes Dow a way better company, it’s more focused company on its 3 core verticals, packaging, consumer care and infrastructure. And they're going to be the world leader and expert in that. Just go deeper in those markets. And it took everything else kind of all these other sets of businesses out. They just so happened to fit very well with the rest of what was the legacy DuPont portfolio ex Ag. So everything that moved over fell into 1 of the 4 verticals of DuPont, which is the way we should organize.

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So I think it made new DuPont a way better company. It makes Dow a way better company. So from a culture standpoint, because we line things up with end markets with customers, everyone got motivated very quickly. So in September, when everything started shifting over and when the copolymers business shifted, for example, they're like, we belong with the people we belong with. We're better aligned than we were in the company we used to be in. And the team started getting together and talking about all these growth synergies, the $1 billion of EBITDA we have that we're working on. That's a lot of programs. That's where the excitement builds. So it actually kind of did this to itself in a lot of ways. Now by the way, the teams are going around the world on a lot of town halls. You do a lot of stuff when you're launching new companies, and Corteva really did for the new name and new branding and all that. But it was very interesting to watch. They wanted to get together. They're in like businesses. You're going to have more R&D in like businesses, and that's where the excitement is. And this morning, when we -- look, when we did -- originally, we knew putting the Ag companies together, they were hugging each other at the first meeting. They always wanted to get together, so it's great to see. So I have no concern about the culture. As you can see in our results, these companies, despite moving thousands of people all around and reducing headcount and all that, these businesses are really clicking. And every employee, by the way, after a month ago now, knows where their position is, what company they're in, what their job is. There's a lot of, I'd say, nervousness up until the last month, and that's gone now.

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

Okay. And so if we dig in a little bit deeper on the individual businesses, Corteva, how do you think Corteva will be different from the DuPont pioneer, Dow Ag from before?

Edward D. Breen
CEO & Director

Well, look, it's -- we now have a full broad set of product offerings and we have the biggest pipeline. We have 21 new products launching in the next few years. We've never had a pipeline like this. And remember, even though we had all the issues with the EU getting the deal approved, we kept the next kind of 5-year pipeline of DuPont on the Crop Protection side. We kept all of the pipeline on the Dow side. So you've got all those products launched in the market. Of course, we kept all of the seed business and [indiscernible]. So we have the broadest portfolio we've ever had, and we just happened to now be into the launch of a bunch of these products. Last year, we just launched Zorvec and Vessarya. We're doing 4 more launches this year. So we've never been in this position before. The other big change is, Jonas, as you know, is we benchmarked every business against best-in-class company, not sort of best in class, best in class. And that's why we're taking over $1 billion of costs out of the combined Ag company. So it's going to benchmark from an overhead structure really well at a time when we have the most launches we've ever had. So we've said -- we said kind of our first half of the year in Ag, we'll be down just slightly. But then we said we'll ramp real nice in the second half. The reason we ramped is the synergies start kicking in because you got a delay in Ag because of the seasonality of the business. They start kicking in and the new product launches are kicking in, and that's what we're aiming for the second half of the year

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

Okay. Do you expect the -- sort of the innards of the company to be different -- run differently or operate differently than the predecessors?

Edward D. Breen
CEO & Director

Yes, to some extent, but I'd say -- I'd go back to the comment I made a minute ago. Every business is maniacally focused on the returns and tracking the programs, delays in programs. And I think that's going to have a huge impact on the returns of Corteva and the other 2 businesses, quite frankly.

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

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Okay. And we followed down the same path for Dow. How do you expect the new Dow to be different from the old Dow? More focus obviously.

Edward D. Breen
CEO & Director

Yes, no. So I think it's -- actually, there's significant change already happening and continue to happen at new Dow. Number one, you have a new leadership. And Jim Fitterling, by the way, I think is a very good strategist. But I would add to that, he's a great operator and he's really, with his team, have delivered pretty phenomenal results the last few years. But what else I'd say is they have the same issue as Corteva. They were not benchmarking best in class from a cost structure standpoint. We benchmark them against best in class, and they're taking out $1.2 billion of cost as we speak. And we're well into it right now, so that's a huge change that we're -- and let's look -- let's get to the best in class here from an overhead structure standpoint. So I'd say that's different. The biggest thing to me, though, goes back to sort of what I said about DuPont. The new CapEx programs coming in Dow are incremental, brownfield -- not big greenfield builds, brownfields, which are safer, less risky and higher return. And Jim Fitterling and Howard laid out with us a 3-year plan at this -- our last board meeting 3 weeks ago on here is the CapEx programs with the returns associated with it and the risk profile. And that's a whole change from where Dow had run the last 6 years. They had the big Gulf Coast project. We had the big Sadara project over in Saudi Arabia, which, obviously, are ramping nicely now. But I really feel good about that profile going forward, and that's a pretty big change. And by the way, therefore, it should be quite the cash machine.

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

Okay. That was one of the big critiques against the old Dow, that their capital allocation was less than optimal. So apart from just setting a different hurdle rate, can you talk a little bit more about what's the process difference here?

Edward D. Breen
CEO & Director

Well, I think they're -- look, the big projects were completed. And so I think the shift is we have lots of good expansion projects on existing facilities that we've laid out of field, that will handle our capacity needs and therefore, the demands of the market needs for at least the next few years. So we don't have to go do that. We can really do these incremental programs and line them up. And that's just -- it's a fundamental shift. And then when you look at, again, the risk and reducing risks and looking at the returns, they just -- they're going to have higher returns because of they're not doing something big. It could be delayed. It could have a major cost overrun. They're just safer projects. And so I think that's a pretty big shift to come, along with the $1.2 billion coming out of the system. Our 2 really big levers to improve returns on this -- and by the way, in fairness, Dow has moved their ROIC from 5 years ago to around 7.5%. They're up over 12% now. But we should be able to drive the returns really nicely in the business with the way we're now going to manage it.

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

Okay. And so the talk -- I believe Jim talked about potentially building a new cracker in Argentina or Canada or the U.S. I know the context was more about the U.S. as an investment geography. But still, there's -- are you thinking about a new cracker invested in?

Edward D. Breen
CEO & Director

Well, there's no timing decided on that, but let me just add one other very key point because this will, I think, answer the question. Dow, Corteva and DuPont are not going to spend above their D&A level pre-step-up. So it's -- we've laid out a plan with the board over the next few years that no one's going to spend above those rates. And by the way, going back to the last 6 years, Dow was spending above

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obviously, as you know, pretty significantly because of the greenfields. And we're not going to do that. That's not the plan we've laid out with the board for any of these businesses going forward.

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

Okay. Does that then -- that doesn't leave room to do an additional investment in Sadara.

Edward D. Breen
CEO & Director

Well, if we did an investment in Sadara, then that would be -- I think you're alluding to going up to 50% ownership. That would be an investment, would do that differently. And by the way, that decision is not a final decision at all either. The returns have to be there for that. You -- most of you, I think, know the layout. There's a big leverage coming in Dow because of Sadara. Sadara, a year ago, lost $465 million. It improved by $200 million during this past year, so good progress. Just all good progress again in the last quarter that we just announced. And we've got to go through the lender reliability test here in the fourth quarter or first part of '19. We already just did a mock test that went extremely well. They just got completed, so we're feeling really good about that. And we have good leverage coming in that business as we highlighted I think in the fourth quarter our earnings, that what was negative $400-some million will turn into about a positive $400-some million as we work through lender reliability, bringing down the cost structure, run it at better efficiency rates and also do some mix enrichment at the facility. So we have a big focus there also and a decision later on, on the equity piece.

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

Okay. And I didn't know that a while ago, about potentially changing the board for the new Dow. And we talked a little bit about it. Could you elaborate on how you're thinking about that board and fresh faces on it?

Edward D. Breen
CEO & Director

Yes. So we're -- it's actually been kind of fun. We're -- and I had fun doing this at Tyco. So we're recruiting like crazy for the 3 boards. And it's all 3, by the way. And just a ballpark here, we have about 8 individuals identified that are going to come on to the -- each of the 3 advisory boards, and we have about another 6 that we're seriously in conversations with about coming on to the 3 boards or whatever that is, 14 people. That's a lot of new -- kind of new blood coming on to the 3 boards, and we'll probably be in a position, hopefully, where we can announce that some time by midsummer. We got a great mix of people coming. We laid out the skills matrix for each of the companies, what did we really think we needed for the future going forward, and we're working right into that.

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

Okay. And then following on the path once more, so to the specialty side. How do you expect the specialty of new DuPont to be different from old DuPont?

Edward D. Breen
CEO & Director

Well, I think it's already way different. We're getting even the portfolio shift. Our first -- the portfolio shift is just a way better portfolio. And DuPont shouldn't have Ag in it with all the other specialty stuff. So it just -- the end markets, when you really study it, just line up wonderfully now. So that's a given at this point because it's done. The big -- we also have the cost coming out obviously, give or take, $1 billion there, and that's going very well. So that's going to benchmark really well. I would also say to you, our corporate costs are going to be less than -- around 1% of sales going to less than 1% of sales. DuPont used to be 2.3% of sales when I got there. So we've cut it more than in half, which was painful, but we had to do it. So we're really going to benchmark well there. That's a huge difference. The biggest

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difference, though, in -- if you want to look at old DuPont to new DuPont is the whole returns. We're just running it differently, whereas, as I said, we're not doing these big CapEx programs that are risky. We've got lots -- so many incremental ones to work on, launching more new products and being very disciplined around that approach. And that's what's going to pay off for us, the new DuPont. There's one other thing a little different in new DuPont and Corteva and Dow. There's more, what I'd say, portfolio optimization to do there than in the other portfolios, which should not be surprising. Companies in that business should always be actively working the portfolio. So as I've said publicly, we want to prune 5% to 10% of the portfolio, take that cash, redeploy it. And so that's a big focus area that, by the way, we've already presented to the board also and they know exactly what we want to do.

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

Okay. Are you changing the incentive structure for people inside?

Edward D. Breen
CEO & Director

Yes. So one of the things all 3 are actually -- and we're just talking about this now. We're just launching it. But one of the things I'm really excited about is, to me, EBITDA or whatever that metric is on our earnings always is in your incentive plan, but I want something weighted nicely on return, ROIC or RONA, in there that really drives that behavior. So we're actually going through that process as we speak with the Comp Committee.

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

Okay. And how is that different from before?

Edward D. Breen
CEO & Director

And by the way, there'll probably be some that are a little bit different because let me give you an example. The key to Corteva over the next few years is elegance of new product launches. I mean, that's the key for them. There's so many coming that we have to be a machine on that. And not that we don't have a lot of projects. That's the core of what needs to happen there. So -- but we'll tweak it depending on the company, but I think you'll see a very heavy weighting towards EBITDA. You'll see a very heavy weighting towards returns across the pipeline.

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

Okay. How is that different from what used to be in place?

Edward D. Breen
CEO & Director

Well, I -- look, it's -- I wasn't around forever. But at one point, we had incentives on sales growth. I'm not a big believer in that. Let the salespeople get it for that, but I don't -- you can do some crazy stuff. So I think those metrics I've always used, and I think they incentivize people the right way.

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

Fair enough. As a reminder, if you have questions, write them down. I haven't gotten a single one so far, and I refuse to believe that there's not a single question in the room. No bad questions, just bad analysts, so...

In the meantime, you want -- I wanted to talk a little bit about the capital returns. And I know it's a question again that keeps coming up. You constrain with what you can say and can't say. The first

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question that I would like to ask is by the time of the spins, is there a strategic advantage to having cash on hand or low leverage sheet? Or are you unconstrained with...

Edward D. Breen
CEO & Director

It's good we got one. No, I -- look, we're -- we just started our conversation with the rating agencies. I think 2 weeks ago was our first round of meetings. By the way, which I consider went well. And we're not going to wonder a lever here. We said we're going to have new DuPont around the rating of A- of what DuPont was, and that's simply because of the severe seasonality of Ag. And we need access to commercial paper and all that, so we're going to benchmark there. And by the way, I'm happy to benchmark where the peer set benchmarks also. In Dow and new DuPont, we're going to be somewhere in like a BBB, strong BBB-type rating environment. So I think we can run very comfortably. Again, we've looked at the peer sets, and I feel comfortable with that. But that's where we can be at. So no, we're not going to undershoot on where we go. And no, we don't need to sit on large cash balances. You need x amount of cash in your system to run each company, and we're not sitting there, going to be a chipmunk and say we need to sit on it because something's going to happen after spin. Once we get through the -- enough of the rating agency stuff, we'll really have to sit down and talk to the board about what we want to do on share buyback. We're doing $1 billion again this month. We did $1 billion last month. I think we still have $1 billion to go on our open platform, and that will be right about the time we'll need to address the issue.

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

Okay. I'm thinking I got -- do the one I actually got. So how does the consolidation in agriculture with Bayer Monsanto and Syngenta ChemChina, how does that change how you deal with customers and sales channel?

Edward D. Breen
CEO & Director

Well, we're -- I mean, that's a big change for us because we're putting the companies together. We have a retail channel, a distribution channel. And we're -- one advantage I think we've always said, especially in the seed side, is we have a direct farmer channel. I mean, we have very close relationships with the farmer community. Our people literally go out in their fields with them. So now that we have those channels to market, we've never had access like that across our platform before, and that's what we just launched and announced. So that's a very, very big change for us as we go forward. The other interesting thing, Jonas, just to point it out on the Ag piece, it's -- Corteva is going to be the only large-scale Ag company that's a pure play because of what you just said. Syngenta got bought by ChemChina and Monsanto just got bought by Bayer. And you have offices in the other -- one of those 3 big players. And of course, BASF has Crop Protection business and now some seed business, but that's also in a conglomerate, obviously. So -- but the channel to market access that we now have is a huge, huge change for us.

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

Okay. And I think you're continuing to build out your channel to market, particularly in the Southeast and in Brazil. How much capital does that require?

Edward D. Breen
CEO & Director

It's not a lot of capital. It's headcount. It's sales headcount. And what we just did, it's interesting. We're in the middle of -- we waited on Brazil to do our cost reductions last when we merged because we're in the middle of the season. We weren't going to disrupt everything going on. I mean, it's a big shipping time for us. But we're now addressing the Brazil market. And as we're taking heads out, we are actually adding sales and marketing capability in Brazil. And we think we have a real opportunity on some market share

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down there. And by the way, we gave up some market share and the divestitures because of the antitrust. I think there's a real opportunity for us. So where we need to add salespeople, we will definitely do it.

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

Okay. How do you stack up against Bayer Monsanto? So where are they better? Where are you better? Or equal?

Edward D. Breen
CEO & Director

You know what, I'd say it this way. We are -- where they still have an advantage if they -- it depends how you utilize it. Is they will still spend more than us on R&D. But as far as the breadth of the portfolio, I feel we stack up very, very well. We're very uniform now. About half our business is crop protection; half of it, seed side. I think, obviously, we stack up very well on seed because of our germplasm and all. So I feel very good about that. They're going to have to go through all their integration issues now, which we've done already and we're kind of sailing along. So it'll be interesting to watch that. And then Syngenta is a great company, obviously, more on the crop side, not the seed side, so we're a little more balanced that way. But Bayer, they've also been a great partner with us. We've done a lot of programs actually together with Syngenta, and we've had a lot of collaboration. So it's been a good relationship.

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

Okay. Can you talk a bit more about the revenue synergies? What steps are you actually taking to get them? And what's the time line you're getting them?

Edward D. Breen
CEO & Director

It's -- when we did the deal and did all our announcement around the deal, I never count revenue synergies. I just never do it.

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

Trust me, no one here does either.

Edward D. Breen
CEO & Director

No, I don't either. But with -- because of what happened with the portfolio, there really are the synergies here. So I just -- I talked about the Ag one, the channel access we now have that we never had. The proprietary crop business we can put with the seed business. There's just things we have more tools in the tool chest. The real exciting one and the biggest opportunity is in Spec co. Because remember, we took a significant portfolio from Dow. Let me just use the construction market. We took everything they had in the construction market and put it together -- everything we had. Our Tyvek, their STYROFOAM, their taping stuff, our taping systems. And we just have a broader offering for both commercial and residential. We were very small in DuPont in the pharma business. We now have a huge -- we are deep -- we're a big player now, so we bring a lot of leverage and scale to that market to gain even more access to it as another example. On the electronic side, we just have a broader offering of products also. We're taking our customers. By the way, we have a way broader offering in the auto market. And our auto business the last quarter grew 11% in a global market that's growing: 2%, whatever number you want, 1, 2? And we're growing because we're lightweighting vehicles between the Dow and DuPont portfolio, and we're electrifying cars. And that's also between the Dow and DuPont portfolio. You don't get that kind of growth in a 2% production market if you're not getting leverage out of it. So that would be a few examples. But by the way, in Spec co, there's like 40 different things to work on of pretty good significance.

Jonas I. Oxgaard

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Sanford C. Bernstein & Co., LLC., Research Division

Okay. Who are you taking share from with these revenue synergies?

Edward D. Breen
CEO & Director

Well, it will depend how this plays out over the next few years, but -- and it depends what business you're talking about. But the leverage we're going to -- let me use electronics a minute. I think we're going to gain more share in auto for sure, and you can name the other players where that comes from. I'm not going to name them publicly, but you know who they are. There's like 5 other players. And by the way, we just happen to have scale now. I mean, if you look at the next set of players in that business, they're nowhere near the scale and the breadth of product that we have. So I think we can pick things off there. Look, we're going to do well in Ag because of the launches we have coming. So whoever we take it from, we take it from. There's not that many people to name, so there's 4 other names. We should do very well. It's the broadest offering of new products coming in the industry.

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

Okay. Speaking of Spec co, you've in the past compared it to 3M. And so if they asked the same question, what would you say 3M is better at, would Spec co be better at?

Edward D. Breen
CEO & Director

Yes. So when we benchmark Spec co to be best in class -- by the way, just to broaden it a little, we benchmarked 3M, Honeywell, ITW and Danaher, and I said I'm not benchmarking anyone else because I know the industrial players. That was my -- a big part of my life, and I'm not benchmarking. They're the ones. But I went to 3M because they kind of even benchmarked at the top. And so let me tell you what's interesting and what's the same, and I'll tell you what's not and where we need improvement. Our revenue growth rates around theirs, especially with the new portfolio -- by the way, the companies look very similar with different end markets, deep in those markets. So just that whole sales profile looks very similar. Our EBITDA margins last quarter were 27%, 28%. Theirs -- or depending on the quarter, they're kind of up to 29%. Honeywell's maybe 26%. So -- and by the way, we're still taking $1 billion cost out. So you can see our EBITDA margins just where they are last quarter, and we have room here in the business. So our EBITDA margin will be around the same. If we spend within D&A levels, our CapEx will be somewhere between 4%, 4.5% of sales, pretty identical to 3M. And I like that because if you can run the machine like that and you don't have big greenfield projects you're doing, if you get really nice leverage and great returns in the business, so that profile is very similar and R&D profile is very similar. I would say historically, DuPont was not as good as razor-focused on returns on each R&D project we are now. And that's built on that -- over the last 3 years. And therefore, because of prior things like Nevadas and running it that way, which we're not doing anymore, 3M would benchmark better on ROIC. And we'd made great improvement on our returns in new DuPont. But if you look at the profile of where we're headed, we'll get there. And our team knows that. I said, "Okay, you benchmark well and everything else. Okay, here's where it's at now." And so how we drive that, and that's why we'll have incentives around that. But it's also why we're running the company differently than in the past.

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

Okay. And how active do you expect the portfolio actions to be after the spin?

Edward D. Breen
CEO & Director

Well, the interesting thing about Spec co is there's great things you could buy that fit in. And I would call it more tuck-in, not some -- there's nothing transformational. But they would really fit, they would have good returns in the portfolio. So I wouldn't leave M&A out of that equation, but there's also the pruning

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to do to clean up the portfolio, which, by the way, within itself will clean up and improve the margins because these are generally our lower-margin, lower, I guess, sort of commoditized business. So if there's somebody who's going to want and pay nicely for, but they don't fit our profile going forward, so that will improve that. And then the other interesting thing, of course, we get asked all the time is there's a lot of optionality with the Spec co portfolio. I mean, there are 4 companies in there that could be -- and they benchmark against other public companies. They're smaller. We're actually -- in our 4 businesses, we are the big player. So we have lots of optionality to create shareholder value, and we'll -- we just have to see how we play that out.

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

Okay. What about the criteria for you to actively look at divesting something?

Edward D. Breen
CEO & Director

Well, you mean the cleanup of the portfolio?

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

Yes.

Edward D. Breen
CEO & Director

Lower growth, lower returns businesses that I don't see them hitting our kind of criteria. So for instance, in nutrition and health, there's some -- and I don't want to say businesses because we do have employees that are just calm and excited now. But there's some businesses that have 1% growth, 2% growth, don't look like that changes. The returns are not going to be as high. The margins are not going to be as high. And we've got businesses like probiotics and pharma that are growing 30%, and we could double down in areas like that and it would change the whole profile of the business. So it's an interesting thing on Spec co, even though our overall margins were up in the high 20s, our margins -- our lowest-margin set of businesses, and it should be one of our highest, is nutrition and health. We were at 24-point-something last quarter. By the way -- that team is driven them up 600 basis points in the last 3 years. They've done a heck of a job. But those 24% margins should be much, much higher, and so we have a plan. Part of it's the portfolio cleanup that drives those margins up to those levels. And the portfolio cleanup alone tells a lot of it besides cost take-out. It's actually bigger as the portfolio moves, and we want to make -- if we could keep growing just again probiotics at 30%; pharma, 20%, then we're putting the capacity in place to do it. That that's where you want to go.

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

Okay. One of the criticisms against old Dow and DuPont was divestment seems to be underperforming at divestment, and then somehow magically outperforming immediately afterwards. How do you differentiate between something that's underperforming within the current company and can be improved and something that should just be jettisoned?

Edward D. Breen
CEO & Director

Yes. So look, I'm not surprised by that. I mean, I went back before I started and studied all that stuff. And quite frankly, I think if you'd peeled another business out of DuPont, the same thing would happen. I mean, it was structurally my opinion somewhat of a bloated company, and we took $1 billion out in 3 months. And by the way, I would have taken more out, except I was in the middle of negotiating the merger with Dow and I didn't want to screw something up. Let me get the merger done, and then I'll see what I want to cut because I would probably make different decisions. So the $1 billion was painful but easy. Now we're taking $3.3 billion out between the 2 companies. So we -- neither company benchmarked

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top of the peer set. It's that simple. They were -- we're in the middle of the pack. And so yes, if you peeled another company out of DuPont, going into what a Carlisle would have done to it. They would have taken x hundreds of millions of dollars out. They would have doubled the earnings.

I mean, think about it. We took more than -- we took almost 60% of the corporate overhead of DuPont out. That's where the overhead was stuffed.

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

That means that's a lot of overhead.

Edward D. Breen
CEO & Director

Yes.

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

Fair enough. The -- what was the biggest differences between this task and what you faced at Tyco?

Edward D. Breen
CEO & Director

I mean, Tyco, a lot of it was similar running the business and making the moves we're making. I mean, Tyco is so different because everyone thought it was going to go bankrupt and we had every regulator breathing down our throat and telling me they were going to indict the company. So that was a whole different experience in my life. But generally running the company, it's no different. I said you can go to any company and run it if you have a system you like to do. And I don't run this much different than I did at Tyco. I have an operating system that I run. I have strategic reviews that we run. We have pricing meetings that we run. We have safety meetings we run. And I have a cadence to the way I like to run businesses. And again, I don't really actually do it too different. But it's also very similar. Tyco is -- we sold over 200 companies at Tyco to clean up the portfolio because they'd done about 800 acquisitions. And that's very similar, not as much to do here, but very similar. You want to do that and get the cash and redeploy the cash. And what I found, we spent a lot of time on with this. The thing you got to get right with the spins is, I think a lot of people take it for granted but I don't, is you got to get the management team right. It's all about the management. Who's going to run the companies and how? It's their philosophy on how they want to run the company. What's their philosophy on capital deployment, on returns? And if we can get that recipe right, these companies are going to be well run. They're going to benchmark well coming out, and they're going to be run very well moving forward. So I spend a lot of time on the people part of it, and I did that at Tyco. And I just loved it because when I walked in here, my CEO from TE Connectivity, which is one of my spinoffs, the phenomenal CEO, and he was given his presentation. But if you get that part of it right, you're set up for success.

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

Okay. You had a comment in your earnings call last time that the disconnect in the share price between -- the share price and the fundamentals. It's the largest you've ever seen. And I'm not quoting you exactly right, but can you elaborate more on that?

Edward D. Breen
CEO & Director

Yes, I think I did say it was the largest. I've been a CEO since like 1997. I don’t think I’ve ever made that comment before. Look, you see our growth rates. And if it was -- probably not adjust that because that's a pro forma. But yes, we're growing 15% top line last quarter. Very similar numbers the quarter before that, great leverage through the system. So it's nothing with our performance. And what I get, which is interesting, I get from investors, we clearly got hit with the tariff talk because when you hear tariffs,

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you think agriculture you think auto, that is two of our key markets. So I get that from a lot of people, and maybe I should address that in a minute. So that's one. The other one I hear pretty uniformly, and I chuckle at it because I heard this exact same thing the 2 times I split up Tyco, was, you're just in a dead period, Ed. We don't have to get too serious yet. We'll start looking at it when the Form-10s come out, and that's when the excitement builds. And by the way, that did end up being true at Tyco. But I had this thing, so I laughed with a lot of the investors, well, you said this to me last time, and you missed a little bit of it. So you guys might have -- guys and gals might have other opinions of what it is, but I think I hear that as a recurring theme. The interesting thing on the tariffs, when you really think -- when you first hear it, you kind of go, "Oh, yes." But let me take the agricultural one because that's the big one at soybeans. Last year, there was more consumption than there was production. And almost all soybeans come from either Argentina, Brazil or the U.S. And 30% of U.S. soybeans export to China, okay? So then you go, "Oh my gosh. If that happens, we won't be exporting at 30%." Well, guess what? Then Brazil and Argentina aren't shipping somewhere they used to ship because they're now shipping to China. And those markets are Vietnam, Mexico, Indonesia, Turkey. They're big consumers and probably growing consumers of soybeans. So it just shifted. The global demand is there to meet what was produced. So it's going to go somewhere, but people -- your first knee-jerk reaction is, "Oh my gosh. 30% of soybeans go to China from the U.S." But as you think it through, I don't think it's a problem at all. And by the way, the interesting thing, if you look at Dow when it comes to tariffs, Dow would now have in the Sadara plant virtually everything that ships into China and into the whole Far East market is coming out of Sadara. And the only other area that I think you could see a little effect is maybe in our electronics business in Spec co. But even in most of that, we're a local manufacturer because most of our electronics stuff is over there. So when you actually walk through it, it's -- plus, I think it's going to blow over anyway. We're -- but we do get that. When you actually talk it through, people get it.

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

Yes. I didn't ask about it because I agree completely. It becomes more in conversations.

Edward D. Breen
CEO & Director

But it comes up in virtually every meeting, so...

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

I can see that. I can see that. Speaking of Dow and their products -- and I swear actually I didn't write this question myself. Could you give us your perspective on the current supply-demand -- excess supply-demand and the surprisingly strong margins? Are you seeing an impact from Chinese environmental regulation?

Edward D. Breen
CEO & Director

No, no. Look, I'm not surprised, and I think Dow has been trying to be really transparent on this. Look, what's changed here on the whole cycle is global demand is just way better than anyone thought a year ago. So we're feeling -- I'm not going to give you any new forecast, but we're feeling very confident about this year and where we're sitting. And we gave a very robust forecast. I think a very robust for what we said we're going to do in second quarter. So -- and by the way, that was clearly on the Dow piece. It was obviously Corteva because everything shifted into the second quarter and Spec co. We gave 3 very robust forecasts. So -- by the way, I do get this question also. Are you seeing any peak in demand? I think the people are getting squeamish out there. No, we're not seeing any peak that it's turning over. We're actually feeling really good, and that's why we gave the guidance that we gave for the quarter.

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

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Well, you've also given guidance for the year that implied that margins had to roll over at the end of the year. Are you...

Edward D. Breen
CEO & Director

Well, we'll update guidance when we get to the end of the second quarter. As we said, we're highly confident in the guide -- I said consensus that's out there for us because we even guided a little lower. You guys came in above us, and that's fine. But I mean, highly confident in consensus out there for us, and we'll update when we hit the end of the second quarter.

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

Okay. Going back to Spec co for a minute. So innovation, it's -- I can see how you had a number of projects. You sort of took a fresh look at things. But innovation over the long run is a treadmill. Treadmill? Treadmill? I don't know. So how do you see continuing that pace of innovation over time?

Edward D. Breen
CEO & Director

So we had -- I'll give you an example this year. I have -- and this is a good problem to have. I have people from the businesses coming to me saying, "Ed, I have more projects than I could do, the $10 million, $20 million ones, and they're kind of sitting on the bubble." That's -- we have a good problem right now. It's like we could do more, and we're debating but we want to kind of stay around the levels we're at. We might inch up a little bit with some of these good projects. We are just -- Jonas, I don't know how -- we are scrutinizing monthly every project, returns, timing. One thing you have to do in a business like this, Spec co is going to spend almost $1 billion on R&D. One thing you have to do, and this is something I've been drilling into the team. You got to also know when to kill a project. Not everything is going to work you're working on, but you just can't keep doing skunk works and having 30 people. You got to learn to kill projects, and we've gotten very good at killing projects. We got to keep it up, and that should happen. It's part of that process of not wasting money.

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

Okay. So you're saying that the idea generation is just fine. It was the killing project that needed to be fixed?

Edward D. Breen
CEO & Director

Yes. Well, how long Nevada went on for, and that was a lot of money wasted.

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

Fair enough. We're almost out of time, so I'll end with the question that we're asking all our panelists at this conference here. Looking at 5 years, what's the most disruptive change that you can realistically see in your industry?

Edward D. Breen
CEO & Director

Well, I don't know if it's quite 5 years, but I'd say the one to watch, and it's a reason we've been investing heavily in it and we also did an acquisition, is digital Ag in our industry. So I don't -- the other business -- I always try to say what torpedo can hit you. You got to deal with the risk factor. I find that exciting and a risk. We're in it. So I'm a big believer in the Ag business, digital Ag. We've got a great presence with our acquisition of Granular. We've added a lot of our people around it. There's only a few people that I think have a good chance here. And who knows if it ends up being a consortium, team effort in the industry. People like John Deere should be a player in it because they have a lot of inputs into the digital Ag. We

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certainly do because of what we do. Monsanto -- or now Bayer Monsanto. So we'll see how it shuffles out over time but that would be one I would watch and view what are other companies doing.

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

Okay. With that, thank you very much.

Edward D. Breen
CEO & Director
Great. Thanks.

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