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EDITED TRANSCRIPT

DWDP.N - Q3 2017 DowDuPont Inc Earnings Call

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OVERVIEW:

Co. reported 3Q17 pro forma sales of $18.3b and pro forma adjusted EPS of $0.55. Expects 4Q17 pro forma net sales to be $19.0-19.5b.

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PRESENTATION

Operator

Good day, and welcome to the DowDuPont Third Quarter 2017 Earnings Call. (Operator Instructions) Also today's call is being recorded. I would now like to turn the call over to Mr. Greg Friedman, Vice President of Investor Relations. Please go ahead, sir.

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

Thank you, Rochelle. Good morning, everyone. Thank you for joining us for our third quarter 2017 earnings conference call. DowDuPont is making this call available to investors and media via webcast. We have prepared slides to supplement our comments, which are posted on the Investor Relations section of DowDuPont's website and through the link on our webcast.

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

Please read the forward-looking statement disclaimers contained in the press release and slides. In summary, it says that statements in the press release, the presentation on this conference call that state the company's -- management's -- the company's or management's expectations or predictions of the future are forward-looking statements intended to be covered by the safe harbor provisions under federal securities laws.

Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially. A detailed discussion of principal risks and uncertainties which may cause actual results to differ materially from such forward-looking statements is included in the section titled Risk Factors in both Dow's and DuPont's most current annual report on Form 10-K as well as the joint proxy statement prospectus included in DowDuPont's registration statement on Form S-4.

In addition, some of our comments reference non-GAAP financial measures. A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release and on our website. Unless otherwise specified, all financial measures presented today are on a pro forma basis and where applicable, exclude significant items.

I will now turn the call over to Ed.

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

Thanks, Greg, and thanks, everyone, for joining us for the first earnings call for DowDuPont.

On Slide 4, I'll cover our third quarter highlights and provide an update on 3 key strategic drivers: the merger, the synergies and the spins. We are making good progress on all fronts while continuing to execute in the business.

Some pro forma highlights for the quarter include: sales were up 8%, volume grew 4%, operating EBITDA rose 7% and adjusted EPS increased 10%. Overall demand indicators were strong, particularly in packaging, electronics, transportation, construction and Consumer Care markets. An exception was Ag, which was soft, particularly in Brazil due to the delay to the start of the summer season and lower expected planted corn area. Howard will cover the Ag segment results in further detail, but we expect a strong finish to the year for this business.

Operating EBITDA increased despite several headwinds in the quarter, including hurricanes, higher feedstock costs and start-up expenses for new assets we are bringing online to continue to meet demand growth. As you know, we closed the merger on August 31. This was a significant milestone that followed months of hard work, strong execution of a complex transaction and the completion of a rigorous regulatory approval process.

Less than 2 weeks later, our newly formed board unanimously approved the realignment of more than $8 billion in sales and approximately $2.4 billion in EBITDA from the Materials Science division to the Specialty Products division. This realignment was based on a thorough analysis completed over 4 months. The thoughtful, decisive actions by our board better align the businesses with the end markets they serve, increase their competitiveness and, importantly, enhance their long-term growth potential.

We also completed 2 of our 3 remedy divestitures. We closed the Dow ethylene copolymer asset sale on September 1. And just yesterday, we completed the sale of certain DuPont Crop Protection assets to FMC, along with the acquisition of most of FMC's Health and Nutrition business.

We expect the third transaction, the sale of certain Dow Brazil corn seed assets, to close later this quarter. This is all good progress and once again shows our team's focus on rapidly working through our key milestones.

Now let's turn to synergies on Slide 5, starting with cost synergies. First and foremost, we remain committed to our target of $3 billion, no change to that expectation. Our previously stated timeline still holds. We expect to reach a 70% run rate by the end of year 1 and 100% run rate by the end of year 2.

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Since the portfolio review announcement, we spent additional time reworking our cost synergy playbook and the division targets. Due to the portfolio change, we now expect cost synergies of $1.2 billion for Material Sciences, $800 million for Specialty Products. The cost synergy target for Ag remains at $1 billion.

And we have already begun taking action. In the third quarter, we took a restructuring charge of $180 million. This charge accelerated the capture of the synergies. And today, we announced actions that are designed to integrate the divisions post-merger and deliver efficient cost structures for the 3 intended companies. They include procurement synergies, global workforce reductions, buildings and facilities consolidations and select asset shutdowns, among other activities.

These changes are carefully designed to help us create the strongest possible foundations and clear strategic focus for each of the 3 divisions.

We expect total pretax restructuring charges of approximately $2 billion, which encompasses the majority of the actions we will take to generate the $3 billion of cost synergies. And we project that our cost savings will hit a run rate of $500 million by the end of 2017. Keep in mind that cost synergies included in cost of goods aren't recognized until they flow through inventory.

There will be CapEx associated with capturing a portion of these cost synergies. Setting aside synergy-related CapEx, we are also carefully scrutinizing our CapEx plans for each of the divisions and expect their 2018 spending not to exceed D&A before the accounting step up.

Turning now to growth synergies. We have also begun our work on the $1 billion target, and let me give you a few examples of what we are doing.

First, in Ag, we have a very strong pipeline set to deliver 10 new seed products and 11 new Crop Protection products to the market over the next 5 years. We will leverage our expanded market access to deliver these solutions to our customers. An example of this is in Brazil, where we will use our advantages throughout the market to expand the launch of our new Conkesta and ENLIST E3 soybeans.

Another example draws on the combination of Dow Pharma and Food, the DuPont health and nutrition portfolio and the business we just acquired from FMC. Our portfolio now has one of the broadest pharma offerings to serve the growing excipient industry. We can now provide customers with capabilities to blend and integrate requirements for controlled release, binding and solubility and emerging needs. Our new pharma excipients business unit, created from the integration of Dow and FMC, also gives us a stronger position in the health care market when combined with our other initiatives in medical silicones, medical packaging and emerging bio-based products.

We plan to share more details with you as we continue to advance and implement our plans.

Finally, I will share an update on our intended spins. Recall that we initially said we expected to complete the intended spins 18 to 24 months after merger. The recent realignment of the businesses introduced new complexity to the financial carves, IT harmonization and legal entity requirements.

Our teams spent the past few weeks remapping the stand and spin timing, looking at several scenarios and walking through risk mitigation plans. We remain committed to our previously stated timeline of 18 to 24 months from merger close, and our teams have begun assessing our options to accelerate this time line.

In summary, we are executing on our top priorities. We're delivering our operating and financial plan. We've begun the work to achieve our synergy targets on schedule, and we're advancing the process of standing and spinning the intended companies.

I'll now turn it over to Howard to review our financial results in further detail.

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

Thanks, Ed. Moving to Slide 6 and a summary of our results on a pro forma basis. We delivered adjusted EPS of $0.55, up 10% versus the year-ago period. This was driven by higher business results, improved equity earnings as well as a $70 million benefit from lower pension OPEB cost due to purchase accounting, with approximately 2/3 of these costs in the Specialty Products segments.

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Sales in the quarter grew to $18.3 billion, and operating EBITDA increased to $3.2 billion, both driven by volume and price gains. Sales were up in all geographies except Latin America. Volume grew 4% on strong consumer demand across a broad range of key end markets.

From a geography perspective, we saw particular strength in Asia Pacific, which was up double digits, and from Europe, Middle East and Africa, driven by the continued ramp-up of the Sadara assets, strength in consumer demand as well as in industrial, semiconductor and consumer electronics markets. Local price rose 3% as we drove pricing initiatives in response to higher raw material costs and tight supply-demand fundamentals.

Equity earnings grew year-over-year led by higher MEG prices and margins, which benefited our Kuwait joint ventures. These gains translated to higher EBITDA in the quarter as we more than offset headwinds from higher feedstock costs, weak Ag conditions in Brazil, the unfavorable impact from hurricanes and start-up expenses related to the new assets on the U.S. Gulf Coast.

We also saw improvement in our cash conversion cycle during the quarter. Going forward, we see additional opportunities to improve our working capital performance, and we will continue to focus on it for each of our divisions.

Let me now touch on a few items in light of the modeling guidance we provided in September. First, I want to thank our teams who did an incredible job mitigating the impacts of the hurricanes. While many of our businesses declared force majeure in the aftermath, our operations and our supply chain teams managed the dynamic situation on the ground and dampened the operational and financial effect. As a result, the headwind in the quarter was approximately $150 million.

I also want to provide greater transparency into our tax rate, which was impacted by significant items, DuPont amortization of intangible assets and the hedging of foreign exchange gains and losses. When we adjust for these effects, the pro forma operating tax rate in the quarter was 27%.

Now turning to our segment results, starting with Ag on Slide 7. The third quarter, as you know, is typically a seasonally low for our Ag business from an earnings perspective. This year, we faced additional headwinds in Brazil.

Operating EBITDA declined $67 million, primarily driven by lower volume and price. Lower Crop Protection sales were due to weakness in Latin America as sales channels continue to hold elevated inventory levels of Crop Protection products.

Additionally, seed volumes declined, primarily due to a delayed start to the Brazilian summer season and an expected reduction in planted corn area. We partially offset these headwinds with lower product costs and continued penetration of new products across cereal herbicides, soybean fungicides, corn hybrids and insecticides for sap-feeding pests.

Looking ahead for Ag, we anticipate a return to growth in the fourth quarter, with sales up about 10% versus prior year and operating EBITDA up to approximately $225 million. The increases are driven by higher fungicide sales, increased corn volumes in Latin America from continued penetration of Leptra corn hybrids, lower pension and OPEB costs and a portfolio benefit. We expect full year sales to increase in the low single-digit percent. Operating EBITDA is expected to increase 11% to 12%. Both of these will be driven by volume, seed pricing and gains from increased penetration of new products, including Leptra corn hybrids, Enlist cotton and A-series soybeans.

Turning to the Materials Science segments on Slide 8. The division grew operating EBITDA 8%, led by robust demand in end markets where we hold leadership positions today. Sales grew 11% with gains in all segments and geographies on increases in both local price and volume.

Moving to the segments. Performance Materials & Coatings achieved an operating EBITDA increase of $142 million, primarily reflecting continued growth in Silicones as well as increased pricing and robust consumer demand.

Consumer Solutions delivered sales growth in all businesses, led by volume growth in most geographies, increased pricing and disciplined margin management in upstream silicone intermediate products.

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Industrial Intermediates & Infrastructure delivered operating EBITDA of $676 million, up significantly from $401 million. The business had pricing momentum, higher equity earnings and broad-based demand growth, which together more than offset the impact of higher raw material costs, hurricane-related repair costs and lost production in North America.

Polyurethanes reported strong demand and price increases in downstream, higher-margin system applications as well as higher merchant sales of MDI. Industrial Solutions delivered strong sales gains led by consumer-driven market segments.

The Packaging & Specialty Plastics segment reported operating EBITDA of $1.1 billion, down from $1.4 billion in the year-ago period. Volume growth, local price gains and higher equity earnings were more than offset by increased feedstock costs, hurricane-related repair costs and lost production in the U.S. The Packaging & Specialty Plastics business grew volume on continued consumer-led demand. This was largely due to higher sales in Asia Pacific and EMEA, which were primarily enabled by the ramp-up of Sadara volumes.

Demand remained healthy with double-digit volume growth in health and hygiene end markets in the Americas and strong demand in food and specialty packaging applications, particularly in Asia Pacific.

Now to the Specialty Products segments on Slide 9. The division delivered operating EBITDA growth of 10% and top line growth of 5% in the quarter on continued strong demand in key end markets, including semiconductors, consumer electronics and automotive.

Electronics & Imaging achieved $382 million of operating EBITDA, up from $341 million in the year-ago period as broad-based volume growth and mix enrichment more than offset lower local price and a negative impact from portfolio actions. The segment achieved broad-based volume growth led by double-digit gains in semiconductor, consumer electronics, industrial, photovoltaics and display end markets, primarily in Asia Pacific.

Nutrition & Biosciences reported operating EBITDA of $315 million versus $321 million in the year-ago period as double-digit sales growth in microbial control solutions and probiotics, coupled with continued local price and volume gains in biomaterials, was more than offset by declines in protein solutions, systems and texturants and a negative impact from portfolio actions.

Transportation & Advanced Polymers operating EBITDA increased to $325 million from $303 million in the year-ago period led by volume and pricing gains, which more than offset higher raw material costs. Volume growth was driven by strength in the automotive, aerospace and electronics markets.

Safety & Construction achieved operating EBITDA of $351 million compared with $282 million in the year-ago period. Volume gains and improved plant performance more than offset the impact of higher raw material costs. Stronger demand from industrial end markets, particularly oil and gas, contributed to double-digit gains in Nomex thermal-resistant garments and mid-single-digit gains in Kevlar high-strength materials.

Turning to Slide 10. I'd like to highlight a few of our expectations for the fourth quarter. We expect pro forma net sales to be in the range of $19 billion to $19.5 billion, which equates to over 7% top line growth year-over-year. Pro forma operating EBITDA is expected to increase 11% to 13% year-over-year, with growth in every segment.

Volume gains on healthy consumer demand in key end markets and pricing momentum are expected to be key drivers for top line and bottom line growth, further supported by new product penetrations, notably in Ag, as well as by mix improvement and disciplined margin management to offset the raw material cost increases impacting many of our businesses.

While we continue to see growth in semiconductors and consumer electronics, sales in the Electronics & Imaging segment are expected to decline due to a negative portfolio impact from the sale of our stake in a noncore joint venture earlier this year as well as due to the Hurricane Maria-driven production disruption at a plant in Puerto Rico.

A benefit from higher industry margins in the Packaging & Specialty Plastics segment and ramp-up in production at the recently started U.S. Gulf Coast projects will be partly offset by the commissioning costs for the sequenced start-ups of the remaining units in the Gulf Coast, higher turnaround activity as well as by our residual $40 million carryover impact related to Hurricane Harvey.

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As we continue to ramp these units, we will further capitalize on our early mover advantage to deliver differentiated packaging solutions and higher EBITDA in this robust consumer demand environment.

Our fourth quarter outlook incorporates an expected EPS tailwind of about $0.06 per share from year-on-year lower pension and OPEB costs, primarily in the Specialty Products and Ag portfolios as a result of purchase accounting. However, this benefit is expected to be offset by an increase in the operational tax rate to about 25% from 19% in the fourth quarter of '16 due to the geographic mix of earnings.

Please refer to Slide 15 in the appendix of the earnings presentation for additional commentary on our segment outlook.

And with that, I'll turn the call over to Andrew.

Andrew N. Liveris - *DowDuPont Inc. - Executive Chairman*

Thank you, Howard. Turning to our economic and market outlook on Slide 11. Global economic acceleration continues, led by the ongoing strength of the consumer across most major economies. The United States is maintaining its trajectory, in line with what we have seen for many quarters. The positive change we see is the greater-than-expected performance in the euro area.

Notably, for the first time in a decade, all 40-plus OECD countries are on track to grow this year. One of the best examples of the demand strength we see is at our Sadara joint venture. In August, we announced that all 26 units at the world-class complex had achieved commercial operations. And by then, the JV was already significantly ramping its sales. In the last quarter alone, it sold more than 0.5 billion more pounds than the same period last year.

We are seeing strength in particular in the Polyurethanes envelope. And we were able to ramp up these units not only due to our preplanning and established market channels, but also because our customers around the world in China, India, Southeast Asia and Central Europe demanded Sadara's products and solutions. We expect this trend to continue into next year as the site reaches its full capabilities.

In packaging, the fundamentals remain positive. We have maintained a consistent view of the supply-demand fundamentals for nearly 3 years, and the trends have largely matched our projections.

PE demand continues to be robust, even in the slow-growth environment, with upside potential as global GDP growth prospects continue to improve and supply additions have been delayed, leading to new capacity coming online at a more measured pace than expected. These factors, taken together, support our long-held view of a short and shallow adjustment period.

More importantly, our longer-term outlook remains unchanged as population growth, sustainable urbanization and a growing middle class in the emerging markets continue to drive greater adoption of consumer packaging.

Looking forward, on Slide 12, DowDuPont has all the levers it needs to execute our near-term priorities. You can see this in the performance we delivered in our first quarter reporting as a combined company.

We delivered top and bottom line growth, overcoming several headwinds in the quarter. We closed 2 of the 3 major remedy divestitures, with the third expected to close this quarter. We continue to advance our growth projects in the U.S. Gulf Coast and the Middle East as well as accelerated progress on the growth synergy plans.

And we immediately began executing against our plans to achieve our cost synergy commitments as well as on our intended spin plans, with the expectation that we will complete the intended spins within 18 to 24 months after closing the merger. As Ed said, we remain committed to our original time line, and we are actively assessing ways to accelerate it. We will share more on this on a future earnings call.

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Before I turn to Q&A, I will cover one more step forward that we are announcing today. DowDuPont's Board of Directors has approved a fourth quarter dividend of $0.38 per share and authorized an initial $4 billion share buyback program, underscoring our commitment to returning capital to our owners.

In considering the shareholder remuneration, the board engaged multiple external advisers to work in coordination with our teams to establish a capital allocation approach that returns excess cash to shareholders while preserving the financial flexibility to achieve the target capital structures for each intended spin co.

Additionally, the board considered numerous factors in making its decisions, including affordability and cash flow, precedent transactions and the historical approach on dividend policies for both heritage companies.

The board's decision on the dividend is meaningful in 3 ways. First, the quarterly dividend announced today is consistent with the targeted dividend payout ratios of each heritage company. And it's equivalent to the weighted average quarterly dividend of both heritage companies.

Second, by setting a payable date in December, heritage Dow shareholders will receive a total of 5 dividend payments in 2017, the equivalent absolute amount of cash to the legacy Dow dividend through 2018.

And third, for heritage DuPont shareholders, this represents a quarterly dividend increase.

And today, we are announcing an initial $4 billion repurchase program. As you know, both heritage companies have had limited ability to repurchase shares over the past 2 years as a result of the prolonged regulatory review of the merger. So we look forward to resuming our share repurchase program. I'm proud of what this management team and our board has accomplished in such a short amount of time. We began this journey with the intent to create 3 industry-leading growth companies, which will deliver sustainable shareholder value creation, and we are firmly on that path today.

With that, I'll turn it to Neal for Q&A.

Neal Sheorey - *DowDuPont Inc. - VP of IR*

Thank you, Andrew. With that, let's move on to your questions. First, I would like to remind you that our forward-looking statements apply to both our prepared remarks and the following Q&A. Rochelle, please provide the Q&A instructions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll first hear from P.J. Juvekar with Citi.

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

As Brent hits $60 and oil prices go up, just trying to understand the impact of rising oil prices on the combined company. I think historically, Dow benefited on the petrochemical side, but I think DuPont was hurt on the specialty side. So what's the net impact on the new company? And then is there any change in approach towards hedging hydrocarbons as a result of the combination?

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

P.J., this is Jim. Yes, as the prices rise, I think it leads, long term, it leads to a constructive environment for us. But in the near term, there's sometimes a lag between the pricing movements in the downstream products and what happens in our cost position. Look, we're always looking at what we need to do on hedging and taking advantage of what we can with our physical as well as our financial positions, and we'll continue to do that. Most of that exposure, as you rightly mention, is going to show up in Materials company, I think, probably on an 80-20 basis. This probably shows up mostly in Materials company, and so we're continuing to drive that look from our seat.

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

I'll just build, this is Marc Doyle, from Jim's comments, from Specialty division. It's actually really sort of a wash. We've got some raw material headwinds when oil increases, but we also sell a substantial number of products into that market segment. So net-net, we're pretty well balanced in this division from oil price changes.

Operator

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

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

Just a question on the spins and the timing, I guess. First question is, you talked about options to accelerate, could you discuss what those are at a high level? And then specifically to Ag, just thinking maybe that would be the first one to come out now because there was nothing obviously done between materials co and specialty co there, and you knew about the FMC transfer for a long time. So any thoughts there would be helpful.

Operator

Mr. Andrews, please repeat your question.

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

Okay, sure. Actually, a slightly different question. Ed, as you've had time to assess specialty co, just wondering what your thoughts are as it relates to nutrition and health and industrial biosciences in terms of the fit within the broader specialty co. And what I mean by that, if I just look out at the peer multiples for that business, some of them are quite high, in the high teens or low double digits on EBITDA. And I'm just wondering if you think that business will get the full reflection of those peer multiples combined with the balance of specialty co.

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

Yes, Vince, you're not the first one to ask that question, but let me start out by saying look, I'm really pleased with the portfolio moves that we just made because we add substantially to the nutrition and health division. And you can see just from a revenue standpoint, it's the leading nutrition and health company in size and scale in the global market at this point in time. And as we mentioned earlier on the call, I'm really excited about the pharma focus we will now have. DuPont's been breaking into that market. We've been spending R&D against it, and here comes the Dow portfolio and FMC portfolio, which, combined, really give us a leading presence in that market. So I couldn't be more pleased overall with where we are on that part of the portfolio. I would add one other point and I get directly to your point or your question. There is portfolio cleanup we're going to want to do in the nutrition and health business. So you'll see some quarters where our growth might not be as high. You notice in our guidance, our fourth quarter growth will be very nice in that business, but there are some commoditized areas we'd like to exit our way out of and really reinvest more in the growth part of that portfolio as we move forward. So we've got work cut out there, but that's very good for our shareholders over time. And look, the way I would answer it is, the specialty portfolio's a great set now. It's 4 very solid divisions, and we'll have all kinds of

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optionality sitting in front of us as to how we want to handle that. And our goal at the end of the day is to create long-term sustainable shareholder value, and whatever the best path is, we will certainly take a look at that and pursue that. You're absolutely right. The multiples you see in that industry are 16 to 18 to 19x, which is above what even the specialty company would trade at, and we'll see how things trade, what they look like, and we'll always look to optimize shareholder value out of it.

Operator

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

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

In the light of DuPont's pension funding, how does the pension funding of the combined company work going forward? What are the levels of contributions you have to make? Also what was your pro forma cash flow for the quarter? And in your $3 billion of synergies, if you could divide that up into procurement, workforce, buildings and facilities and asset shutdowns.

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

Yes, Jeff. On the synergy piece, about 30% of that is more headcount-related type actions. And then you have a big piece in COGS and facilities and all that, that makes up the rest. I will say on the synergies, we now have the procurement teams working together. And there's over 50 teams working globally in the procurement area on all of our contracts across both companies. And we were not allowed to do that until we merged the companies because of the guidelines that you have to follow. So the teams have had now 60 days of really intense work. And you've heard me say before, I think some of our upside opportunity is going to come from the procurement side because we only baked in $660 million out of the $3 billion from procurement. And the fact of the matter is if you look at precedent type of deals and all, and with the amount of spend we have between these 2 companies, which is north of $35 billion, we should be able to extract some really good savings there. So I would say stay tuned on that one, and we'll be updating probably on the next quarter where we're at on that piece. But again, both from the Dow division, the Ag division, spec co division, we've all met multiple times already with these procurement teams, and we're going to make good progress there.

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

Jeff, this is Howard. Let me get the other 2 parts of your question. So first, on pension funding, remember, we still have the legal entity constructs. So the Dow tower and the DuPont tower. So those pension fundings and the expense will be in line with where they have been in prior periods. So from a Dow perspective, the funding is in that kind of $600 million range for the full year. And we've funded that. On a DuPont tower basis, you're looking at a little bit of a tailwind. I mentioned in the prepared remarks that it'll be about a $200 million tailwind in the fourth quarter, and that will continue to flow through on the DuPont tower into spec co and Ag co primarily into 2018. Finally, on the cash flow, with the GAAP pro forma numbers, you'll see that in the Q that we publish. We expect to publish that early next week. You'll see positive GAAP free cash flow, positive GAAP cash from operations, both north of $1 billion. I would say it's not really an apples-to-apples just because of the way the merger and pro forma GAAP accounting works. What I would point you to is if you look at the cash balance that both the Dow tower and the DuPont tower have in the bank relative to same quarter a year ago, it's up approximately $2 billion of increased cash, and that's the way I would at least bread box that for you.

Operator

Next we'll move on to David Begleiter with Deutsche Bank.

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

Ed, on the buybacks, it seems a bit light overall, 2% of your market cap. Can you discuss the cash needs you might have between now and separation that might be limiting the buyback level? And what's the time frame for the buyback to be completed?

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

Yes. Remember, one of the key words that was highlighted when Andrew covered that was it's an initial buyback program. You can imagine how busy our DowDuPont board has been with all the actions we've already taken. And one of the things that we wanted to do was get going again on share repurchases. Andrew had mentioned we were out of the market a fair amount this past year, 1.5 years. And we wanted to get going. And by the way, it just so happened that both Dow and DuPont together had about $4 billion left on their share purchase. So we just said, look, let's get that going and get in the marketplace. What we will do now with our board is go back. We've got to look at -- as you said, the cash flows, what's the uses of cash here. We do need cash short term for the synergy work. That's more front-end loaded than back-end loaded. But the fact of the matter is we'll go through that study. We're right now in conversations with the rating agencies. We want to understand where we're at on that. Remember, they count a lot of things in debt that don't normally get counted in debt as you just look at it purely. And so we've got to take that into account. You know the ratings where we want to end up at a BBB on the Dow tower, somewhere between BBB and high BBB-something on spec co and an A- on Ag. So we know the framework for where we want to be, and then we can back into what our excess cash is as we go over the next year, 1.5 years. But just keep in mind this is initial so we can get going on it.

Andrew N. Liveris - *DowDuPont Inc. - Executive Chairman*

If I can add, David, I think from the mat co point of view, we've been very public before the merge that we will take our CapEx down to D&A. We're not backing off of that, and so as Ed and I go through board reviews here in the next couple of board meetings, so we are going to look very strongly at 2018. We have an affordability topic that we have to get into as well as the capital structure topic Ed just covered. But the CapEx equal D&A is something that we remain committed to, especially off the high CapEx spend we've just come off of in materials.

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

Yes, and I mentioned, just to add on to Andrew, that capital spend for each of the 3 divisions will be at or around the D&A level. So each 3 is going to do it on their own, and therefore, in aggregate we'll be in good shape. So that will be helpful. And I would say even with that, 60% of that CapEx is growth-initiative CapEx, and the other's run and maintain. So we've got a nice balance for future growth in that plan that we've put together.

Operator

And next we'll hear from John Roberts with UBS.

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

Has the Silicones business been physically deintegrated already? Or is that deintegration still ahead, and just the reporting has been done for us and splitting it between the 2 segments?

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

John, this is Jim. As far as the physical deintegration, what I would say, we announced the portfolio changes in first, second week of September. We've done a lot of work with obviously ring-fencing the employee population. That will be part of that and going through the notifications on that between now and the end of the year. We've also done all the work on the financials. So you've got the financial reporting that's in the numbers and the pro forma that's shown there today. As far as physical separation, i.e., spending money or looking at facilities and that, that work has not

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started yet, but that is on our radar screen. And Marc's teams and our teams on the Silicones side are working well together. So the businesses that are going to receive those businesses have already been in contact, and they're making great progress in the 45 days since we announced that.

Andrew N. Liveris - *DowDuPont Inc. - Executive Chairman*

This is Andrew. It's actually been one of the positives of the delay to the merge is we were able to stabilize Dow Corning Silicones, and so a lot of that work's behind us. So from a next step point of view, we're all ready to make that, what Jim just talked about, happen.

Operator

And we'll move on to Kevin McCarthy with Vertical Research Partners.

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

Yes. Would you comment on the expected earnings improvement from Sadara as you ramp through to 2018 as well as the analogous contributions from your Texas-9 complex as you're up and running there?

Andrew N. Liveris - *DowDuPont Inc. - Executive Chairman*

Yes, look, I've just come back from Saudi, and I would tell you the moving parts called Aramco are huge. So we made an announcement before the merge that we would be truing up our participation post spin and post vendors reliability test. I would tell you that the operational side Jim can comment on as well as, of course, talk about Texas-9, but just the moving parts called the partner has needed a lot of close engagement. We've been doing a lot of that, and Jim and I have taken the lead on that, and Jim, you might want to comment on how the units are doing.

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

Yes. So through the third quarter, plastics obviously has been running strong through the year. Through the third quarter, we got all of the liquid chemicals assets up and that supply chain ironed out, so you're starting to see product move. You didn't see the full capacity of the chemicals business in the third quarter. I think you will see us hit that rate in the fourth quarter. We've got a lot of the supply chain full, and we've got all of the terminals and tanks, that's operating now around the world to get that moving. So you're going to see an improvement year-over-year. We're right on track with what we've guided you to earlier. Plastics is starting to see a tailwind from this. Performance Materials and now Industrial Intermediates & Infrastructure is seeing a little bit of a drag year-over-year. But it's more positive than we expected it to be. But I think as we move into 2018, you're going to start to see both of them become positive year-over-year. I don't have a plan number or a dollar number to give at this point, but I think you're going to see a step-up improvement in both of them.

Operator

And next we'll hear from Frank Mitsch with Wells Fargo Securities.

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

I was just wondering, as I think about the synergies and cost cuts, what part of that is comprised of telecommunications and conference call equipment? And is there any thought of adding back to those programs?

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

Yes, well, Frank, we're now going to look for more in that area.

Andrew N. Liveris - *DowDuPont Inc. - Executive Chairman*

We're just using Mets technology, Frank. Question?

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

You mentioned asset shutdowns as part of the synergies, production assets. Obviously, we know about the offices and so forth. Where should we be thinking about that? And what's the rationale? Was one or the other of the companies running at very low operating rates? And so any color around that would be very helpful.

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

Let me hit that from more of the specialty side of the house and actually a little bit from the Ag side. Remember, here, over the last year, DuPont is shutting 3 fairly significant facilities, in addition, by the way, to consolidating footprint in Wilmington, which is pretty significant. So you know the announcement where we've been in the mode of shutting down La Porte, totally exiting the location. We announced a few months ago the closure of Cooper River, totally moving that production to another existing facility, which really leverage our overhead structure. And you saw an announcement out of us today that we're going to sell our Nevada, Iowa cellulosics facility. Again, we've proven out the technology. We'll continue to work on some of the technology in that area, but we just strategically with our focus now in specialty and everything we have going on and the growth initiatives we have, it's just not going to be core to our future to have that. So we're going to exit that facility. So there's just an example. There's 3 major moves occurring as part of this, and of course, there's many more in Ag just with rooftops and local markets and all that, that really add up into significant numbers but much smaller-type locations.

Andrew N. Liveris - *DowDuPont Inc. - Executive Chairman*

Maybe Jim Fitterling, you can comment on mat co.

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

Yes, Frank, I think, on mat co, look, I would just echo what Ed said. I think there are no market reasons for us to take anything down. There might be some strategic reasons as we look at the footprint that we have and the new company and how many locations that we have to support around the world. So sometimes, when you get into some downstream assets, there are some opportunities to combine locations and move an asset or do something of that nature. And we're taking a look at that, and we've also, like on the specialty side, done a lot of things over the last 18, 24 months to get ready for the merger and to get ready for this next step. So I don't think it's the biggest driver of what we're doing here.

Operator

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

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

Did I hear you right when you said the spins are now expected to be 18 to 24 months? And if so, what happened there? Because I thought that there was a pretty consistent message of 18 months or less before.

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

Yes, let me comment, and maybe Howard wants to add a few words to this. But the shift is only because of the portfolio change, Jonas. I mean, we're not only moving $8 billion of revenue over, but remember, when you look at what we're moving over to align it properly, it's parts of divisions, in many cases, of Dow. So it's very similar to what DuPont had to do to carve out not its Crop Protection division, but like half the Crop Protection division, which is a much more significant task. So we're doing that in multiple scenarios now on the Dow end, and that carve-out work, legal entity work, harmonization of our IT systems is really the extra work we now have to do. So what we guided to today was 18 to 24 months. Jonas, you're right. We originally said 18 to 24 before, but then over ensuing months, our team worked that down where we felt confident to tell you 18. We're kind of back at that point again of we're 18 to 24, and we'll update you as we go. The teams are working excruciatingly hard and nights and weekends trying to derisk it and see if we can pull that date in some. But nothing else to report there. That a lot of hard work and hopefully, we can make some progress.

Operator

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

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

Great. So your slides note about 11% to 13% EBITDA growth expected in Q4. I think that implies around (inaudible) or 7. I guess, I'm just curious. Is that level kind of sustainable as you march forward into the next couple of quarters? And do you see start-up costs rolling off that would potentially accelerate that? Or new product launches or anything that you could further give us as far as your outlook goes?

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

Yes, let me make one comment, and I'll turn it over to Howard. You've got to take into account Ag seasonality when you talk about the sequential quarters. So just bear that in mind. You can have a real down quarter then you got the up quarter. So putting that aside, Howard, you may want to talk about the rest.

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

Yes. I mean, I would just say that look, this was the first quarter, as Ed I think kicked off in his introductory remarks, first full quarter as DowDuPont is the fourth quarter. And so what we tried to do was give you as granular a look by operating segment as we possibly can. We'll do more in the next quarter to give you our 2018 outlook, but we feel really good about the third quarter results. And that fourth quarter of 11% to 13% up on the EBITDA as well as the growth in the top line of north of 7%, we feel really good about both of those numbers.

Operator

And next we'll move on to Laurence Alexander with Jefferies.

Unidentified Analyst

This is [Tim] on for Laurence. So as we head into 2018, do you have any early thoughts on the outlook for North American Ag?

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

Clearly, this market in Latin America as we talked about here in third and fourth quarter, had some delays in it. So we're seeing some shift of the summer corn season. We'll also feel some shift of Safrinha. That has an effect on the North American markets as well as growers -- they really -- they sit back, and they look at commodity pricing and planted acres. So where we're telegraphing it right now is that corn area in North America are probably going to be flat, like-for-like bagged seed tag pricing probably about flat. For us, the opportunity is our product mix with the new technologies that we continue to bring into that market, continuing to upgrade our corn genetics, continuing to drive the adoption of our A-series soybeans, continuing to ramp the Roundup Ready 2 Xtend technologies. All of those give of us a little bit of a mix uplift. And then we faced some pretty aggressive replant acres last year. So we'll have a more -- we're planning for a more normal season on the replant side as well.

Operator

And next we'll move to Bob Koort with Goldman Sachs.

Robert Andrew Koort - *Goldman Sachs Group Inc., Research Division - MD*

I was wondering as you guys thought about carving up Dow Corning a bit differently, I know in the past Dow had rightly been proud of some efficiency and integration benefits. Did you have any dis-synergies as you peeled that apart?

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

Why don't you?

Andrew N. Liveris - *DowDuPont Inc. - Executive Chairman*

I'm going to let Howard take that question.

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

Yes, thanks, Bob. What I would say is this, we spent the full, I would say, 4 months prior to the September 12 announcement on the portfolio realignment really looking at the entire enterprise with a clean sheet of paper. We started with market verticals. We started with what is like with like. How can we reduce our costs further? And how can we grow these businesses based on the market verticals faster? And I think that we feel really good about the portfolio realignment that we put forward. And we took certain businesses out of Dow Corning, like Molykote, like Multibase and a few others and aligning it to the spec co segments based on the essentially the 4 market verticals in the segments that we're reporting. There will be some dis-synergies, and we're going to have to deal with that. There will be some stranded costs. We're going to have to deal with that, but we're committed to doing it. And the way we set up that portfolio that we announced in early September, mid-September was what we see as the most value-maximizing risk-adjusted way to set these companies up for long-term success.

Operator

And we'll move on to Don Carson with Susquehanna.

Donald David Carson - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Yes, question on the growth synergies. You talked about $1 billion there. You gave some examples. What percentage of those growth synergies will come from Ag? And what's the timing? And what you list here is really products that were in the pipeline already. So what is the growth synergy? Is it the ability that, for example, DuPont has greater ability to launch new crop chemical products? Or what exactly are you looking for there?

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

Yes, let me just give you a high level and maybe Jim and Marc want to touch on this. The high percentage of the growth synergies are now going to reside between spec co and Ag. And especially because of the portfolio change, it really opened up a lot more significant opportunities because of the like end markets, as Howard just talked about. So that's the team's working on the bulk of them, but Jim, why don't I turn it to you and you talk about Ag, and then spec co?

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

You're right. As we think about growth synergies, clearly, we have a pipeline of products that were always kind of loaded into our base plan. But you take some of those offerings and you drop them into a much more expanded channel access, so one of the great examples of that would be either the ENLIST E3 technologies or the Conkesta technologies. So going into that, Dow Agro Sciences Mycogen had one set of market shares. Now you open up the channel access from the Pioneer brand as well. And then as we start to think about this whole multichannel, multibrand strategy that we've talked about before, we've got this opportunity now to have a much stronger retail offering that we just haven't had. Pioneer's route to market has been more of a direct route, and we're able now to take more of those genetics and put them in bags and sell them through retail. So that's kind of a North America view. You add Conkesta to that, you start to talk about the opportunity that we now have in Latin America with some things we're doing with background genetics. It's that expanded access and that broader route to market that really drive a lot of those growth synergies. And that's a seed kind of comment. But the same on chemistries. Our companies were -- we had different strengths in different markets around the world. You take the combined team that we now have in China. We feel really good about our ability to launch products like Rinskor, the new rice herbicide that we have there. You think about the knowledge and the intensity that we've had in the insecticide markets over the years. Now with expanded opportunity with spinetoram and spinosin in the hands of a broader team in these specialty markets, that's another source of those growth synergies.

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

Marc, why don't you comment on specialty?

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

Yes, thanks, Ed. The original question was about the $1 billion and the breakdown, and as Ed said, Jim and I kind of have the lion's share of it. And I think the portfolio realignment around end markets has really opened up a lot of opportunities for growth synergies, and originally, we were focused on the electronics channel, and that was the early plan, and I'm still very excited about the alignment between our electronics businesses, and we're seeing a lot of specific share gain opportunities there. But now we've opened up a number of new avenues for growth synergies, and the teams are already actively working on those, and these are combinations like in the construction industry, the combination of Styrofoam and Tyvek products and associated building products, leveraging our residential channel in particular. We see a lot of upside there. In automotive, electrification and again leveraging the strengths of the Dow adhesives portfolio with our high-performance polymers is offering a lot of potential uplift in new growth. And I think we mentioned in the script the pharmaceutical excipients example, which is a combination of Dow's business with the FMC portfolio. Now we suddenly have the broadest range of offerings in that space in cellulosics and some pretty exciting growth potential there. So across specialty co, many opportunities here for delivering growth synergies, and we're really focused on moving those forward.

Operator

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

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

A question around materials co. If I heard correctly early in the call, you guys talked about maybe a slight dip in utilization rates next year, and obviously, with all of this capacity coming online. So a 2-part question. One is that obviously, the virtue of the cycle seems to be that there's very little capacity coming online on their sort of post-2018 time period. It also seems that the hurricanes have had some sort of a muting impact on the downside as well. So the second part of this is that recently, I came across this announcement talking about how Iran is considering converting all of their methanol facilities into MTO facilities. And any future sort of methanol facilities they'll build will actually be tied to olefins. So how should we think about sort of all of these moving parts as they pertain to the cycle in the near to medium term?

Andrew N. Liveris - *DowDuPont Inc. - Executive Chairman*

I'll start and I'll get Jim to add, Hassan. Your first 2 points we're in violent alignment with, and I think the next 24 months is going to show more upside on supply-demand than what consultants, industry pundits who have been consistently wrong for 3 years have forecasted. So we indicated a lot of what you just said. So that's the way you should take it. And as far as Iran, and for that matter, China and all the other MTO projects, they've been consistently late. They've been consistently over capitalized, and they've consistently not occurred. And so I would take nothing from any announcement out of Iran, short of something that President Trump might say, which is a whole other thing. So I would tell you that we're not worried about that in the supply-demand balances in the next 5 years. Jim?

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

Yes, I would just say, our numbers and our analytics say, I'll just use plastics as an example, you're talking about, in a 3% GDP-plus type of an economy, you're talking about 3.7% demand growth, maybe 4% demand growth and about 4.1%, 4.2% capacity growth. And, by the way, that's what it looks like for the next couple of years. So I think from now to 2022, our outlook is we're in a pretty constructive environment for demand growth in the plastics segment. Downstream demand continues good, and we're trying to compete more in the higher end of that market segment. Polyurethanes is growing at probably 1.6x GDP right now. And so although there's capacity coming on, there's pretty good downstream pull and demand growth there, very diversified markets for that business, and we're seeing steady demand there. So I agree with you. I mean, these moves that they're talking about making now will take 5 years to materialize. And if they come on at that rate, we're in a very different market environment from an oil and gas perspective then.

Operator

And next we'll move to Peter Butler with Glen Hill Investments.

Peter Butler

The gains in your volume and price were really very impressive in a slow GDP environment. And I'm wondering how much of a help is it to have Dow folks on the ground in some of these markets rather than selling through distributors as some of your competitors do?

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

Well, Peter, this is Jim. Look, I think it's always helpful for us to be on the ground selling. We've got to build good relationships with the customers, and I'll just use Sadara as a great example. There's a plant that comes online, 26 plants and everybody expects a giant wave of material to come out. As we've said, there are literally more than 1,000 customers for those materials in 60 to 70 countries that have been qualified all over. So it isn't like all of this material is going to one place in the world. That global reach and presence is something that both Dow and DuPont have. And actually, when you look at all 3 of these divisions now, they all have feet on the ground in those market segments, and they're all used to selling value and pulling that demand through the distribution chain. I don't see that changing in any of these models.

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

Peter, the other thing I would add, by the way, which is really important to these divisions going forward, a lot of the growth you're going to get out of us in the future is because of our innovation and new product pipelines. And so when you look at the 4% volume we had this month and 3% price, that's clearly above where the global economy is growing. And when you look at in our Ag business, it's all about the pipeline. And, by the way, our results this past year being above the market dynamics in Ag was all about the pipeline and the new products and Leptra that we talked about. And, by the way, just to give you one other example, in the transportation area, in the auto area, we're growing both the Dow part of the portfolio and the DuPont above auto builds, because we're putting more content into the car, whether it's electrification or light-weighting of vehicles. And those are very positive trends. But that's really incumbent on us to continue our innovation, our R&D spend and our launch of new products into the marketplace these next few years.

Operator

And we do have time for one last question. We'll hear from Steve Byrne with Bank of America.

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

A couple of questions about Sadara. Does that facility's polyethylene have the ability to meet the specs to move product into that higher-priced European markets? And can you comment on the outlook for feedstock pricing for Sadara, given the Saudi government's initiative to push feedstock pricing?

Andrew N. Liveris - *DowDuPont Inc. - Executive Chairman*

Jim, why don't you start? I'll add a bit.

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

On the product end, and I would say it's not just plastics, but all the products have the ability to meet the specs of our global customers. And they've all been qualified already at those accounts. So there's no issue there. They won't see an issue. And what they see actually is another source of supply, which is a very positive thing for them. And as you know, when we put the deal together, we had a locked-in agreement for those feedstock costs for a time period, and that's still in place. So I think a lot of the moves you see happening are on a go-forward basis, and that would be for new projects and new capacity.

Andrew N. Liveris - *DowDuPont Inc. - Executive Chairman*

Yes, double down on that, that we have that commitment from the Ministry of Petroleum. All agreements would be honored. All the new pricing structures are whenever they're enacted, which I think is imminent. I would tell you also, the other big thing Sadara did, and it's well known in the kingdom and, for that matter, the region, we really grabbed the last ethane allocation available, which gives Sadara a competitive edge that no other competitor in the region can now have. Most of that gas is dry. They're finding all the associated gas doesn't have much liquid. So it's a really important thing that we may -- were able to put those agreements in place when we did, and we will have that tailwind for the next several years based on how Jim answered the previous question.

Operator

And that will conclude today's question-and-answer session. At this time, I would like to turn the call back over to Mr. Neal Sheorey for any additional or closing remarks.

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Neal Sheorey - *DowDuPont Inc. - VP of IR*

Thank you, Rochelle, and thank you, everyone, for joining our call and for your patience during our brief delay today. We appreciate your interest in DowDuPont. For your reference, a copy of our transcript will be posted on DowDuPont's website later today. This concludes our call. Thank you.

Operator

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

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