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EDITED TRANSCRIPT

DWDP.N - Q4 2017 DowDuPont Inc Earnings Call

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OVERVIEW:

DWDP reported 4Q17 results. Expects FY18 topline growth to be in mid-single digits percent and 1Q18 net sales to be $20.5-21.3b.

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PRESENTATION

Operator

Good day, and welcome to the DowDuPont Fourth 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 fourth quarter and full year 2017 earnings conference call.

DowDuPont is making this call available to investors and media via webcast. We have prepared slides to support our comments. These slides are posted on the Investor Relations section of DowDuPont's website and through the link to 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 Product division, respectively; and Neal Sheorey, Vice President of Investor Relations.

Please read the forward-looking statement disclaimer contained in the news release and slides. In summary, it indicates that statements in the news release, presentation and conference call that state 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 and events to differ materially from such forward-looking statements, is included in the section titled Risk Factors in each of DowDuPont's -- Dow's and DuPont's most recently quarterly report on Form 10-Q.

Last, we will also refer to non-GAAP measures.

A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release and on our website.

I'll now turn the call over to Ed.

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

Great. Thanks, Greg, and thanks, everyone, for joining the DowDuPont fourth quarter earnings call. I'll start by covering the financial highlights, then I'll provide an update on our 3 key strategic drivers: the merger, the synergies and the spins.

This past quarter marked the first full quarter of operations for DowDuPont, and as you saw, our teams delivered strong results.

Turning to Slide 4. The fourth quarter highlights were: sales increased 13%; volume rose 6%, well ahead of global GDP; operating EBITDA grew 24%; and adjusted EPS increased 41%. We benefited from strong underlying demand for our products and leading positions in growing markets. All 8 operating segments reported quarterly sales growth as did every geography. We delivered excellent operating EBITDA leverage. Operating EBITDA rose in nearly every segment on increased volume and price, cost synergies, lower pension and OPEB costs and higher equity earnings.

For the full year, the trends were directionally similar. Pro forma sales, operating EBITDA and adjusted EPS all grew by double-digit percentages.

Now I'll share an update on the merger, synergies and intended spins. Since our last earnings call, we completed the sale of certain Dow Brazil corn seed asset. This was the third and final key remedy divestiture required by regulators. In addition, we completed the realignment of our businesses. Management responsibility for the businesses shifting from the Materials Science division to the Specialty Products division now rests with the new leaders. With that work behind us, our focus now turns to the synergies and the intended spins.

Our goal is to hit a run rate of $500 million in cost synergies by the end of 2017. We exceeded this goal. We executed projects with run rate savings of more than $800 million at the end of the year. In fact, about 75% of our synergy projects have now been launched. And as a result of that quick start, our realized savings in the fourth quarter were more than $200 million.

Today, we are pleased to announce that we have raised our cost synergy commitment to $3.3 billion, up 10% versus our original plan. The lion's share of the increase reflects upside from procurement. Our procurement teams have worked across DowDuPont together, going contract by contract, to identify savings opportunity and have been incentivized to deliver and lock in the highest possible savings.

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Here's how the new synergy commitment breaks down by division. We see $1.1 billion coming from Ag, $1.235 billion from Materials and $965 million from Specialty Product.

Finally, on Slide 5, we'll update you on our time line for the separations and intended spins. Based on our progress this past quarter with identifying ways to accelerate the spin timing, we no longer expect our spins to take up to 24 months from merge date. Rather, we now expect to complete the separations about 14 to 16 months from today. We anticipate Materials Science separating first by the end of the first quarter of '19, and we expect Agriculture and Specialty Products to separate shortly after that by June 1, 2019.

The next steps, as you can see, include allocating assets and liabilities to each of the independent companies we are standing up in such a way that we achieve the desired credit ratings and that we can compete well with peers in our respective industries. I'll keep you apprised of our efforts with this time line on each of our earnings calls. In addition, you'll be able to see our progress when we file the initial Form 10s this fall when they go effective about 6 months later subject to SEC approval and when we launch our equity road shows before listing the securities.

In summary, our businesses are performing well. The spins are anticipated to occur in only 14 to 16 months from today. And meanwhile, we are taking up our cost synergy number to $3.3 billion. We are excited about the opportunity ahead for our company and for our shareholders as we create these 3 companies, each focused on serving specific growth industries with more agility and lower cost structures. With more than $4 billion combined in cost and growth synergies, we feel very much in control of our future.

Now let me turn the call over to Howard to review our financial results in more detail.

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

Thanks, Ed. Moving to Slide 6 and a summary of our fourth quarter result. As Ed mentioned, we closed the year with strong financial performance, achieving double-digit top and bottom line growth. Drivers of the EPS increase include: strong business results, quick actions to capture cost synergies, contributions from new capacity additions, improved equity earnings and a benefit from lower pension and OPEB costs with approximately 2/3 of these costs in the Specialty Products segment. Our double-digit sales increase was driven by broad-based volume growth in all operating segments and geographies and price gains in all geographies.

Volume grew 6% on strong consumer demand across all of our key end markets. From a geography perspective, we saw particular strength in EMEA driven by the continued ramp-up of Sadara and in Asia Pacific also due to the contributions from Sadara as well as strong demand in Electronics & Imaging.

Local price rose 5% as we drove pricing initiatives in all geographies in response to higher raw material costs and tighter supply-demand fundamentals.

Equity earnings increased, led by improved results from Sadara and increased earnings from Hemlock Semiconductor.

And as Ed mentioned, we delivered great early progress on our cost synergies through to the bottom line.

These gains translated to operating EBITDA of $3.9 billion in the quarter.

Cash flow from operations in the quarter was $4.2 billion, driven by increased cash earnings and Ag's seasonal cash inflow, partly offset by contributions to pension plan.

And we returned nearly $2 billion of cash to our owners, which included $1 billion of share repurchases.

Turning to the drivers of our tax rate as well as our 2018 guidance in light of U.S. tax reform. This quarter's operating tax rate was 18%, which was lower than our modeling guidance, primarily due to our geographic mix of earnings and benefits from changes in tax rate in certain foreign jurisdictions. You will also see that we recognized a net tax benefit of $1.1 billion resulting from a new tax legislation. This benefit is based on 2 pieces. The first is a gain of $2.7 billion, which was primarily driven by the remeasurement of our deferred tax assets and liabilities. This net benefit

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was principally due to the purchase accounting step-up as a result of the merger, which was partially offset by a $1.6 billion charge for our foreign unrepatriated earnings.

Looking ahead, we expect the U.S. tax reform to lower our 2018 tax rate by 1 to 2 percentage points to a range of 20% to 23%.

Now turning to our segment results, starting with Ag on Slide 7. In a tough ag market, our business grew, delivering gains in the quarter and for the full year. In the fourth quarter, operating EBITDA more than doubled to $224 million primarily driven by cost synergies, volume increases and a net portfolio gain. Sales growth was realized in both feed and crop protection. Seed volume and price rose on earlier Brazil safrinha deliveries, doubling of corn sales in Argentina driven by penetration of Leptra corn hybrids and growth in the European sunflower and corn seed business.

Crop protection volume increased, driven primarily by the continued penetration of new products such as Vessarya fungicide and increased demand for Optinyte nitrogen stabilizers. Volume growth was offset by pricing declines driven by generic pricing pressure, specifically in Latin America and Asia Pacific.

Looking ahead for Ag, we anticipate full year sales to increase in the mid-single digits percent range and operating EBITDA to increase in the high teens percent range. For the year, we expect to deliver top and bottom line growth driven by new product introductions and cost synergy delivery. We estimate first half sales and operating EBITDA to be about equal to last year, which is in line with the estimated corn area planted in North America in 2018 and reflective of the challenging price environment. We anticipate about 45% of the first half results landing in the first quarter and 55% in the second quarter. We also anticipate a ramp in our cost synergy realization in the second half and expect our new product introductions to be fully ramped and contributing to growth in the latter half of the year.

Turning to Materials Science on Slide 8. Performance Materials & Coatings operating EBITDA increased to $613 million, up from pro forma operating EBITDA of $392 million, primarily due to increased pricing, higher equity earnings, strong end market demand and cost synergies. Consumer Solutions delivered double-digit sales growth in all geographies, driven by strong gains in local price in Asia Pacific and EMEA.

Industrial Intermediates & Infrastructure operating EBITDA rose to $677 million, up from pro forma operating EBITDA of $489 million on pricing momentum, improved equity earnings, demand growth and cost synergy. Polyurethanes and CAV benefited from strong demand and price increases in downstream systems applications as well as from tight MDI fundamentals. Industrial Solutions achieved double-digit sales growth, led by demand in electronic processing, crop defense and food and pharmaceuticals.

The Packaging & Specialty Plastics segment reported operating EBITDA of $1.3 billion, flat with pro forma operating EBITDA in the year ago period. Price and volume gains offset increased feedstock costs, production and cost impacts from hurricane-related disruptions, maintenance activities as well as commissioning and start-up costs.

The Packaging & Specialty Plastics business delivered double-digit sales growth in food and specialty packaging as well as in industrial and consumer packaging in EMEA. Volume growth in North America was driven by robust demand in food and specialty packaging as well as in health and hygiene applications.

Looking ahead, the business continues to advance the next tranches of growth. Our NORDEL EPDM facility is mechanically complete and well into commissioning activities. In fact, the unit just recently produced its first prime material and will spend the remainder of the first quarter ramping to rates and qualifying product with customers, reaching full start-up by the end of the first quarter. Additionally, our new low-density polyethylene unit is also mechanically complete and we expect it to be started up by the end of the first quarter.

Moving to Specialty Products on Slide 9. Electronics & Imaging achieved operating EBITDA of $367 million, up from pro forma operating EBITDA of $331 million. Volume growth and cost synergies more than offset hurricane-related costs, a negative impact from portfolio and higher raw material costs. Growth in this segment was driven by double-digit volume gains in consumer electronics, industrial and semiconductor end markets.

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Nutrition & Biosciences reported operating EBITDA of $352 million, up from pro forma operating EBITDA of $309 million, primarily driven by a portfolio benefit, cost synergies and volume growth. Volume gains were led by increased demand for bioactives, continued growth in probiotics, demand for microbial control solutions in energy markets and growth in pharmaceuticals.

Transportation & Advanced Polymers operating EBITDA increased to $365 million, up from pro forma operating EBITDA of $276 million. Benefits from volume gains, improved local price and cost synergies more than offset higher raw material costs. Double-digit sales growth was led by strong demand from the automotive, electronics and industrial markets.

Safety & Construction achieved operating EBITDA of $285 million, up from pro forma operating EBITDA of $227 million on broad-based volume growth including solid demand across industrial markets, construction and medical packaging.

Looking ahead to the full year for this division, we can see -- we continued -- we see continued strong market demand, namely, from semiconductor, nutrition, construction and automotive markets. We plan to continue to add capacity in higher growth areas where we offer compelling customer benefit. We are talking to customers about our enhanced offerings based on the portfolio realignment and are making good progress with the cost synergy delivery plans, resulting in gross margin expansion in all 4 segments.

We see top line growth for the group at global GDP or better, led by Nutrition & Biosciences, which will benefit from a full year of the FMC business and gains in Safety & Construction.

Turning to our modeling guidance on Slide 10, starting with our first quarter outlook. We expect continued healthy demand as well as pricing gains across most of our businesses. At the company level, we expect net sales to be in the range of $20.5 billion to $21.3 billion. Operating EBITDA is expected to be in range of $4.6 billion to $4.8 billion.

First quarter results in the Ag segment will be impacted by a timing shift of sales into the second quarter resulting from an expected delay in farmers' final planting decisions in North America. The quarterly results will also be negatively impacted by an expected unfavorable product mix in the Brazil sanfrinha season, driven by the delayed summer season harvest.

Excluding the Ag segment, DowDuPont's first quarter sales and operating EBITDA are expected to increase 8% and 13% year-over-year, respectively. Volume gains, pricing momentum, cost synergies and lower pension OPEB costs are anticipated to more than offset higher feedstock costs.

On the U.S. Gulf Coast, recent severe winter weather has caused operational and logistics issues across the industry. We expect this to translate into a headwind of $50 million to $70 million for the Materials Science portfolio, which will be partly offset by the earnings contributions from the U.S. Gulf Coast start-ups.

I also encourage you to refer to Slide 18 in the appendix for further commentary on our segment outlook for the first quarter.

Next, I'll briefly outline our expectations for the full year 2018, which you'll find on Slide 11. We expect top line growth in the mid-single-digit percent driven by continued healthy demand in our core end markets. We expect EPS growth in the mid- to high teens percent on improved business results including contributions from new capacity additions, cost synergies and lower pension and OPEB costs. Higher interest expense related to our growth projects coming online will be partly offset by the tailwind from a lower tax rate.

Finally, I'd like to end with some comments on Sadara on Slide 12. In 2017, the JV made significant strides bringing all 26 units at this world-class site online. In the fourth quarter, Sadara steadily ramped up its asset and tested the site's full integration. The JV's strong operational performance gives us confidence as we move toward the next step, the lender reliability test. Sadara is planning to conduct test runs in the coming months and expects to be ready for a full LRT late this year or early next year.

Here are some points on the scale and breadth we've already achieved. In 2017, Sadara produced 4 billion more pounds of product than 2016. Sadara's polyethylene has already been supplied to more than 700 customers in 71 countries. The EO derivatives are ramping up with product

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already delivered to 240 customers in 50 countries. And in the isocyanate chain, Sadara has delivered MDI to nearly 200 customers in almost 40 countries, and TDI sales are just beginning.

Sadara is well positioned to meet the strong consumer-led growth drivers in the emerging regions of Asia, Eastern Europe, India and Africa.

Financially, in 2017, the JV performed in line or better than the guidance we provided in terms of its contributions to Materials Science's revenue, EBITDA and cash flow. As we look to 2018, and the JV enters its first year of full commercial operations, we see a $200 million tailwind to EBITDA from Sadara on a year-over-year basis. This is an important step toward the long-term profitability of this JV, and it shows that the JV is making solid progress in spite of the underlying factors that have changed since both partners authorized the project. Sadara, with oversight from both partners, is implementing an action plan that aligns to these new realities. And that's why we and our partner remain fully committed to this growth investment and the long-term average annual contribution from Sadara, which we still see as about $400 million a year over the cycle.

As we look ahead, Sadara will continue executing its go-forward action plan. This includes further ramping operating rates, selling out and optimizing the product mix, scaling down start-up and commissioning and preparing the site and our teams for LRT activities.

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

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

Thank you, Howard. On Slide 13, I want to start by acknowledging the incredible progress our teams and our board have together achieved in just 5 short months. We are already demonstrating the value creation potential of this historic merge-and-spin transaction.

Here are the headlines since closing the merger on September 1. We realigned the portfolio, further positioning the intended spins for long-term competitive advantage and sustainable growth with unanimous board approval just 12 days after merger close. All remedy actions required to close the merger were completed on target. Our board announced a dividend and buyback plan, and we immediately began returning cash to our owners with nearly $2 billion returned in the fourth quarter alone. We rapidly made progress against our cost synergy commitment. As Ed and Howard mentioned, we exited the quarter ahead of our run rate commitment and are already seeing cost reductions hit the bottom line, and our confidence led us to increase our synergy commitment now to $3.3 billion.

On the spin timing, we announced today an accelerated time line to unlock these 3 world-class companies with Materials Science spinning first, followed shortly after by the separation of Agriculture and Specialty Products.

And last, but not least, we remain squarely focused on operational discipline, commercial excellence and agile business management, delivering double-digit top and bottom line growth this year.

In sum, it was a breakthrough year for DowDuPont and our stakeholders, one where we delivered on all of our financial, strategic and operational commitment.

On Slide 14, I want to take a broader view of the growth investments in our control. As we work through the steps of this transaction, our 3 divisions are capitalizing on a series of strategic investments in their core end markets and continuing to expand our portfolio to meet rising consumer demand.

First in Ag. We successfully launched Enlist cotton in 2017 and achieved approval to enable the full launch of Enlist corn in the U.S. and Canada for the 2018 growing season.

We also completed the acquisition of Granular, which will further position us to help growers enhance their business.

Looking ahead, our combined Ag pipeline is stronger than ever and we expect to launch 21 new products in the next 5 years, equally balanced between seed and crop protection.

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In Materials Science, we will continue to capture growth from our capacity expansions in the Middle East and on the U.S. Gulf Coast. We are bringing on the industry's broadest and most differentiated derivative slate at a time when demand for our products and technologies is robust around the globe.

And finally, in Specialty Products, we are adding capacity in higher-growth end markets to meet increasing demand from our customers. For example, Electronics & Imaging is bringing on additional capacity for CMP pad production at a time when demand for our unique capabilities is very strong.

In Nutrition 7 Health, we're expanding capacity in probiotics, enabling us to strengthen our position as an industry leader and allowing for an increased pace of new product development.

And for Transportation & Advanced Polymers, we're adding extrusion capacity to reflect trends in the automotive sector.

These growth investments and many others in our playbook position each intended spin for enhanced earnings growth and cash flow generation as well as further strengthen their long-term competitive advantages.

With that, I will turn to our near-term outlook on Slide 15. Throughout much of the world, economic expansion has gained momentum driven in large part by robust and upbeat fundamentals in consumer and business confidence, employment and wage growth and manufacturing and infrastructure investment activity. In fact, for the first time in many years, we are seeing broad-based synchronous growth around the world. In developed economies in particular, we continue to see strong leading indicators of broad-based and sustainable growth. In addition, we see the comprehensive tax reform in the United States as a catalyst for increased domestic capital investment, which will take advantage of enhanced competitiveness and pro-business investment incentives. We're also bullish on developing economies where the emerging middle class in India, China, Africa and the Middle East continues to support sustainable growth.

We are mindful that volatility and uncertainty remains in this environment, and there are select centers where we are cautious, most notably, Ag, as we see soft market fundamentals persisting in the near term. But on the whole, we are optimistic about the products and technologies within DowDuPont's portfolio, which are well positioned to meet growing needs in our core end markets.

I will close with our priorities going forward on Slide 16. Simply put, they are: delivering greater earnings and cash flow growth, achieving our cost and growth synergy commitments and driving towards standing up and separating the intended companies. All 3 of these priorities are shared by your board with a focus of the board squarely on delivering the increased synergies, achieving all the milestones on spin timing, ensuring the capital structure of the intended spins such that each can achieve their targeted credit ratings and driving the accelerated spin time line that we showed you today. The board and management team have never been more confident in the teams we have in place to deliver against our key priority.

Our pathway is clear, and we have our hands on all the value-creating levers.

We are creating 3 industry-leading companies, focused and agile organization ready to adapt at the speed of business today and with vast growth potential benefiting our customers, communities, employers -- employees and shareholders alike.

With that, I'll now turn it to Neal to open the Q&A.

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

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

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QUESTIONS AND ANSWERS

Operator

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

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

Ed and Andrew, on the synergies, do you believe there is further upside potential on the cost synergies? And any further update or confidence on realizing the growth synergies over the next couple of years?

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

Yes, this is Ed. On the synergy front, look, I feel really good about where we got here with the extra $300 million. Look, we're going to be still looking over the next 6, 7 months for any other synergies we have. And I'll see where we end up, I don't want to precomment on that. But I will say 2 things: our procurement teams are still working very hard and they're not through everything yet but they did hit the bigger items first, so just to give you a little perspective. And there's an awful lot of work going on with Marc Doyle and his team on the SpecCo side, simply because so many end markets businesses came together with Dow and DuPont. So we're still taking a really hard look there, so that would be opportunities we're still testing as we go down the road. But I will tell you, just for the second part of your question, we've really move more to the growth synergy focus now. Marc, on the SpecCo side, has all the teams now getting together now that we're managed as one business from both the Dow side integrated in with the DuPont side and we're really working through a whole list of great action items there for growth. So I think you're just going to see a lot more opportunities in SpecCo than we simply would've had before when we realigned the whole portfolio. And my gut is, David, by the time we get on the next earnings call, we will be talking a lot more specifics with you about where we see our biggest growth opportunities from putting these businesses together. And of course, we have talked on the Ag side. There's huge amount of opportunities there just because of the different channels to market that we have, and Jim Collins and the teams have already put extensive work in that because those teams have been together for over a year now talking about these type of things. So again, we'll talk more about that next quarter, but that's where the excitement inside the company will now turn to once we lock down, okay, what is the final cost synergy number. Let's really just get focused now on the growth side of that.

Operator

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

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

A question on Ag. You mentioned that -- you mentioned price declines in crop chemicals due to generic pressure. Can you be more specific on that? Which chemicals, then insecticides, herbicides? And then what is the risk that this pricing pressure comes to the U.S. this spring?

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

P.J., it's Jim. Yes, specifically, in the fourth quarter, we mentioned some price pressure, primarily generic and that's really coming out of Latin America and mostly aimed at the fungicide portfolio. Some of the picoxy derivatives that we sell. We sell both a straight picoxy and several mixtures in that marketplace and some of those straight molecules came under a little bit of stress. So when I think about pricing pressure and some leakage, as you suggested, into North America, we really are not seeing as much on the chemistry side as we're likely to feel in the seed side due to some pretty aggressive competitive pressure out there. And just a really tough market for growers with commodity prices and a trending where they are, we're expecting, as Howard said in his comments, that it's going to be a tough go here as we start out the year.

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Operator

And next, we'll hear from Jeff Zekauskas with JPMorgan.

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

I have a 2-part question. In your guidance, you say that the cost synergies year-over-year are about $1 billion benefit. And so if you knocked out about $250 million in 2017, that's about $1.25 billion. So that means you've got $2 billion more to go in order to get to your target. Why is the number for '18 so small relative to the total? The second question is your cash flow from operations was $4.2 billion, but last year, Dow and DuPont each combined generated $6.3 billion in cash flow. So what was the amount of your nonrecurring charges that were cash in the fourth quarter so we can add them back to the $4.2 billion?

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

Yes, let me hit the cost synergy and maybe turn to Howard on the cash piece. Remember, there's run rate synergies and then synergies captured within the period. So we're on a very significant ramp. As we said, we did over $200 million that we got in the quarter, but we actually exited at a $800 million run rate. Now remember, when we track all our synergies is when we accomplish the task and it's done. And then what will happen, Jeff, is some of these take 6, 7, 8 months to kick in. Again, I'll just give you 2 examples, I think, just for easy understanding, but I can give you 20 of them. We're doing a lot of rooftop consolidation and probably even more now in SpecCo than we were planning because of everything coming together and by the time we got out of leases or maybe sell one of the properties, consolidating either a Dow of DuPont location, you're kind of some of these projects -- and by the way, we're tracking them how long they're going to take. They take some months. And by the way, another easy one, and it happens to be a fairly decent number for us, is on the contract manufacturing side, we're making a lot of moves on the contract manufacturing side, but we have contracts in place that could be another 4, 5, 6 months before it ends with a contractor and we make our move. So again, we're tracking every one of them in detail. But that's why you'll see as we exit even this next calendar year '18, you'll see a very high run rate ramp at the end of '18. But of course, you won't see that same number actually hit and fall within the year. And so we'll give you both numbers both times, but you will see by the time we get to '19, most of this is kicking in and we'll be on the tail end of it. Literally, as I said, 75% of the project's already launched, so we're really in the thick of it right now and you just got to give it some months in many of these cases to actually kick into place. And don't forget, one of the other big delays, and we've already taken a bunch of these actions, is on the Ag side also where it takes a planting season to actually realize the savings. So a lot of Jim Collins' bigger moves like that seed production consolidation from third parties internally to an old heritage DuPont production facility, you won't see until you get into the next year. But again, we'll keep you posted on what actions we take and then try to give you a lot of clarity around in period versus run rate.

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

Jeff, this is Howard. On the cash from ops, good question, and you're right to target the areas that you did. You know, because of the merger, we don't have any pro forma statements on cash flow. But when you do an apples-to-apples look, our cash from ops is actually up almost $1.5 billion versus the same quarter a year ago when you strip out some of those onetime items. So nearly a 30% increase in cash from ops on an apples-to-apples basis versus same quarter a year ago.

Operator

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

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

Ed, I'm just wondering if the change in U.S. tax rates has impacted your calculus at all in terms of the strategic opportunities that might be available at Specialty co and I guess what I mean by that is obviously one scenario is simply to wait and see at what multiple Specialty co will trade at in late

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'19 post the 2 spins. But given elevated pure equity multiples today and now with lower tax rates, just kind of wondering is M&A maybe more appealing in terms of crystallizing multiples today versus trying to do Reverse Morris Trust or other more tax-efficient structures that would likely take more time and therefore encounter risks of where equity market multiples might evolve to?

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

Wow, that's a loaded question. By the way, just in general, on tax reform, I mean, you saw the benefit we're getting from that, 1 to 2 points in the factory. Actually if we were staying together as DowDuPont it would even be a bigger percent, probably double that just for background. But I'd just mention a couple of points so we're clear on this. We do have decent amount of overseas cash between the merged company. I think it's $12.2 billion out of our $13.5 billion literally. And -- but what we're obviously going through right now is now all the beginning -- moving all the liabilities around on and see how we get to the ratings that we want with the rating agencies for the 3 businesses. So our teams right now are in a little different mode than a typical company because we're really now looking at what does each of the 3 companies need to maintain in overseas cash, especially based on the Spec co realignment of the portfolio. So what do we actually need to leave overseas to run our international operations and where? And then what do we have that we want to bring back, et cetera, vis-à-vis based on the ratings that we want. And also that whole exercise is going on right now with our treasury and finance teams throughout the company. But to your point on SpecCo, look, SpecCo's always had a lot of functionality to it and what we can do to create shareholder value. One of the things I love about it just the way it's configured now I love it because I think it comps extremely well against the best peer companies in that sector, and I don't mind saying their names on the phone, Honeywell and 3M. Our EBITDA margins by the end of this year will be right on top of the best of those two. Our CapEx spend is about 4% to 5% of sales, which is right on top of best-in-class peer, which should allude to a great ROIC for the business done right. Our R&D is about in line with where those best peer companies are. So just the way the portfolio was configured now, I think we sit really pretty as people start to understand it more the power of what we put together, I think it should be afforded a multiple in the range of those companies. Having said that, we will always look at the best shareholder creation steps we can take. And these are 4 pretty neat companies within SpecCo and we will certainly look at that as we go down the road. Don't expect anything for us to be doing stuff now. We're literally just integrating of people together in businesses and we want to get that right and be very comfortable that we're positioned then we'll look at all our options.

Operator

And next, we move onto Hassan Ahmed with Alembic Global.

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

It's a bit of an interesting year obviously on the ethylene, polyethylene side of things. Obviously, as I see it, a couple of moving parts. You obviously have the U.S. capacity coming online, which should be a headwind. But on the other side, a lot of chatter around China, pollution-related curves and now all the latest and greatest news about China sort of banning the import of solid plastic waste. So just wanted to sort of get a sense of how you are thinking about the nearer-term 2018 side of things within the global ethylene, polyethylene market.

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

Hassan, this is Jim. Sorry about the voice. Yes, I think the outlook for growth in PE is still solid, about 3.7% growth rate as we look forward. China obviously has continued to grow. Actually, the emerging markets continue to grow. So while new polyethylene capacity has come on in the U.S, not enough has come on really to keep up with the market growth rate. And if you look at what's happening right now, actually ethylene is longer than polyethylene in the Gulf Coast. We don't have enough plants right now in the Gulf Coast to convert it all. So I think you're going to see things are going to be a lot more balanced in 2018 and 2019 than people anticipate. The recycling bans are having some impacts in some countries. I probably hear more noise about that in Europe where places like Germany have no place to move material and it's backing up to both PET and polyethylene. And of course, there's no place to incinerate in Europe, the incinerators are all full. But all that said, I'm not sure that has a very big effect on the virgin PE growth rate. Most of that recycling is going to move to another country. Some of it's moved into Southeast Asia right now. Your point on China, though, in terms of carbon and emission is very true. For several years, their emissions have gone down from burning less

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coal. Last year, they rose. There are a lot of concerns about that. They're seeing a lot of pressures being put on. They need to sustain negative coal burning rates like negative 1% per year to actually have an impact on pollution. And the way you see that is the big pull that's coming on LNG into China. They're going to have to increase LNG imports something like at the rate of 17% to 19% per year into China to keep the pressure on coal and to keep the pollution down. Right now MTO in China is out of the money by about $150 bucks a ton. Those operating rates are low. So all these dynamics, I think, are very favorable for us as we look forward with this new capacity coming on in the U.S. Gulf and 2 more furnaces for Texas-9 and a couple of new plans, one in Europe and one in the U.S. Gulf Coast in the next couple of years.

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

And I'll just add, Jim, Middle East, we've said this many times that the supply side is hampered there with lack of wet gas. And so many of the Middle East producers including our friends at Aramco are now looking at ways to get liquid into the ethylene mix, which means a hell of a lot of by-products and you're going to have to move a whole lot of other type of materials. So the CapEx side of that as well as the multiple products will slow down supply from the Middle East. So I think our Sadara asset is well timed, the last based on rich ethane and I think that adds to the point on the supply side. So we've always said the cycle looks more like ridge and we see nothing that's going to stop that for this foreseeable year.

Operator

And next, we move to John Roberts with UBS.

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

I think the guidance for the fourth quarter for Performance Materials and Industrial Intermediates EBITDA growth was 10% to 15%, in that range. You blew through your guidance. Maybe you could give us just a rough bridge of the guidance versus the results. Where was the upside versus what you were expecting?

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

Yes, John. So revenue was up 15% versus same quarter last year and all businesses and all geos were up. Price was up 10%, volume was up 4%. In Consumer Solutions, price was up 9% and it was up revenue 14%. Even monomers and coatings was up on price by 10% and volume up 4% and that was led by North America and Asia Pacific and the construction outlook there continues to be good. Look, we had downstream demand across all the silicones markets and applications. I think that's true as well for Marc's businesses. The acrylic operating rates have been better. MMA is still tight and I expect it to be tight through the first half. VAM, vinyl acetate monomer, looks like it's going to be tight through 2020. The acrylic operating rates are much better. So I think all of that's been very constructive and we've seen everything moving in the right direction, which I think was the beat.

Operator

And next, we'll hear from Christopher Parkinson with Credit Suisse.

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

So you're already actually in a pretty solid fashion across Specialty co in regards to synergies as well as taking some portfolio actions on some lower-return businesses, albeit some smaller ones. But last quarter, you also discussed what you referred to as your playbook to deliver the $1 billion in revenue synergies in which you mentioned Health & Nutrition as well as even the acquisition of FMC. Can you just give us a little more color on both of these fronts and as well as what your ultimate long-term goals are?

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

Let me hit the first part on the portfolio and Marc will talk about some of the growth initiatives because he's really been digging into it with this team. We are, by the way, we've already done our full analysis on the portfolio and there clearly are part of the portfolio like you would expect from a business as diverse like that, that we would want to exit and monetize the assets. And the ballpark on that, it would be somewhere between 5% and 10% of the portfolio are things we would take a look at. And they just felt that our strategic focus -- and by the way, our EBITDA margins will actually go up because they're on the lower end of our averages, in a couple of cases, very significantly. So that cleanup will be important. We'll try to accomplish some of that this year. We've got it gated a little bit by the stress on our financial teams doing the spins, but we know kind of what we want to do from that end. And one thing we've, I think, talked about pretty extensively to keep in mind, there's clearly some of that we want to do in the Nutrition & Health side because we've got 4, 5 really big growth areas there, but we have a few that are a little more on the commoditized side that we want to clean up. So that'd be one specific area we want to get to. But Marc, why don't you talk about some of the growth things we're working on?

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

Yes, thanks, Ed, and thanks, Chris, for the question. Just focusing on N&B as the starting point and -- because as you referenced that, the general theme here is focusing on the segments that we think have really attractive long-term growth potential and particularly these combinations that we put together in Specialty co. And so as an example, within N&B, the traditional N&H business has now created a pharmaceutical excipients business that's really unrivaled, the combination of the FMC business and that's based in the Dow business in that space. And we did complete the integration of that business together. It's going to launch now. We're out in the market talking to channel partners and finding a lot of opportunities to grow faster because we've just got a really unrivaled portfolio now of products in that space and it's a pretty attractive long-term growth space. And then I'd also mention, of course, the doubling down on the growth investment in some of the other real horses like the probiotics business, which has been growing double digits now for several years and is really reaching an appreciable scale. And so just maybe one final comment, you asked about the playbook for innovation. It's really around portfolio management shifting the focus to these higher-growth segments. It's about ensuring that we're leveraging best practices across all of these specialty businesses. And it's about putting in place the right culture of focus on innovation, customers and market knowledge. So these things are the levers that will play out over the next couple of years to pick up the growth rate of the whole division.

Operator

And next, we move on to Frank Mitsch with Wells Fargo Securities.

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

Howard, as I think about your share buyback program, you guys said $4 billion was kind of the first tranche that you wanted to get out there. You did $1 billion in buybacks in Q4. Your guidance for fiscal '18 -- or for calendar '18 is 5 million shares lower than for first quarter '18, which seems kind of light. Can you please enlighten me on what your strategy is there? And might we see it upsized, et cetera? What's the pace we should be thinking about?

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

Frank, I'm not sure I can enlighten you, but I will answer your question. How are you doing? What I would say is we did $1 billion in the fourth quarter. As we think about Q1, I would say you should think about that same rate for the first quarter, is another $1 billion. Of course, we're going to continue to be opportunistic as we were in the fourth quarter. Remember that -- and Ed made a comment to an earlier question. I mean, we're working on the capital structure of all 3 companies and that's the work that we have to do through the balance of this year. Until we get each of the new divisions rated, we don't have broad access to the debt capital markets. So we want to maintain financial flexibility and I would say prudent levels of liquidity. But with that said, we're going to continue to be opportunistic. And don't forget, in terms of the guidance, you've got a time --

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a weighted average effect, right, because you're not buying in the first month of every quarter. So you're basically doing it in a lag basis because of when we report earnings and the open window versus the quiet period.

Operator

And next, we move on to Steve Byrne with Bank of America.

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

Given your comment about challenging fundamentals in Ag, do you expect more traction in your financing program to those growers that buy both seed and chemicals giving you a much broader platform in those products now? And any update on the use of the Mycogen brand throughout that retail channel? Are you planning to expand that? And then just, lastly, any update on Chinese import approval on Enlist soy, when do you think you might be able to launch that?

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

Great. Steve, thanks for the questions. On your first part, you're right around our programs and our offering. It's a little bit early in the North America seasons to kind of pinpoint just what the uptake might look like. Our TruChoice program that we have out there, I think, is one of the most competitive in the industry and it does nice job of rewarding loyalty and an opportunity for our broad set of customers across the North American continent to participate appropriately so we're excited about that. Your third question was around Enlist soy, and as we talked about before, we feel like we're the next on in the queue for solutions around that with Chinese regulators. We have complied and supplied all of the documentation and information that's required and have had some really good dialogue. Enlist soy, along with Qrome, represent a pretty substantial opportunity for us in the seed business for growth for the future, so we're quite interested in getting those approved and we're monitoring that very, very carefully. Your second question was around the Mycogen brand. And Mycogen brand has a spot -- a nice opportunity in the retail and distribution marketplace. And as I've said before, you and I have talked about this, this gives us a unique opportunity to penetrate more into that space by putting more and better genetics in those bags, upping our game there and leveraging kind of a multi-brand, multichannel now approach. So yes, we're excited about the Mycogen brand. And stay tuned. As you see us move forward through the latter part of 2018 and into 2019, we'll be refining that multichannel, multi-brand strategy not only in North America, but you'll see additional brands in Europe and in Latin America to kind of round out that offering.

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

Let me just add on the Ag piece because you mentioned a tough Ag market. Just to put this in perspective. Last year, we grew the revenue line low single digits and we had double-digit earnings growth in the Ag business between both the Dow and the DuPont portfolio. We are forecasting this year that we're going to have mid-single-digit revenue growth and high teens earnings growth, which is certainly doesn't make me feel bad. And by the way, it's driven by 2 core factors. There's more than this, but if you look at it high level, a lot of our synergies kick in, in the second half of the year in Ag, so that's something within our own control, and Jim has a lot of product launches that are kicking in that we expect for the second half of the year and those 2 really drive results for us. So yes, we got choppy quarter-to-quarter because of the way things shift in the Ag business. But when you look at the whole year picture and the whole planting season, we think we're teeing up for a nice year. Yes, in a tough market, it's probably going to be flat, but we're feeling good about our positioning.

Operator

And we'll move on to Peter Butler with (inaudible) Research.

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Peter Butler

I just have one question relating to your balance sheet. If you're successful in consummating all the deals that you might be contemplating now, what might your balance sheet look like just before you start the spin-offs with Material?

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

So Peter, this is Howard. I'll take a stab at the question. I mean, what we're working on now is really setting up these 3 separate publicly traded companies all for growth, all with more focus and the ability to move faster. It's pretty clear the target credit metrics and credit profiles that we're working on, the Materials Science should look like Dow in the fourth quarter of '15, the Ag company should look like DuPont in the fourth quarter of '15, and we set investment grade for the Specialty division. So we're setting up pretty strong investment grade companies that'll all be focused on growth. And obviously, I think Ed mentioned it in his prepared remarks, but we're working on the assets and liabilities and the pension and the cash and the debt. And so that's the work that we have in front of us, and you'll be hearing more. As the time line slide in the deck shows, you'll be hearing more as we get through the next several quarters through the end of 2018.

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

I guess, the punchline is we're highly confident that we're going to get the credit ratings we want because we already know, in aggregate what we have and we're going to portion it to get to where we need to be. So it's not a worry. We've got a lot of hard lifting to do to get it all in the right places.

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

And to say something, Ed, you said in your script, we're in control of the cost synergies. We have the playbook. They are detailed. We know when they will hit. We know the lag lead on Ag. We know that, that number is in our imminent future, and now we're getting the growth synergy conversation, to earlier question, deeply rooted in all 3 divisions. So when you look at the go-forward 12 months in front of us here before we get to the spin, the ability to heavy-lift on cost synergies and get the growth synergy platform will give us 3 robust balance sheets to enable us to go do more work on growth or share buyback or both most likely.

Operator

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

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

Just a question on the guidance here. I just wanted to confirm, did you say that Q1 EBITDA would be up 13% year-over-year ex some of the onetime items? And Q1 is usually your strongest EBITDA quarter. Is that going to be the case in 2018 given typical Ag segment seasonality? Or do you expect something different in 2018 and why?

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

Well, let me just hit one point. We're going to have a little bit of a different flow this year because we have such significant cost synergies kicking in, which obviously drops right to our EBITDA line. So that's a little different than just running our normal seasonality in the business. So just keep that in perspective, but let me turn it over to Howard.

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

Yes, I would just say that operating EBITDA and what you see on the modeling side ex Ag, up 13%. When you include Ag because of the seasonal shift that Jim's talked about, Ed's talked about between Q1 and Q2, it's obviously lower than that. But $4.6 billion to $4.8 billion is the guidance we're giving for operating EBITDA for Q1 for the company.

Operator

And next, we move to Jonas Oxgaard with Bernstein.

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

I'm trying to understand the guidance -- the full year guidance for Packaging & Specialty Plastics. Now I realize I'm on the record saying the guidance for commodities is futile. But you've tried to slash sales and yet in the very next page, you talked about $1.5 billion extra revenue from Sadara. TX-9, the derivatives is going to be in line. Crude is, I don't know, $15 higher than it was in '17 average. So why slash sales?

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

This -- yes, Jonas, this is Jim. A couple of things. If you looked at where we were in the fourth quarter, one of the things that was in the fourth quarter numbers was a pretty high amount of ethylene and hydrocarbon by-product sales. If you remember, we came out of the hurricane and we actually were running pretty well. Most of our competitors were having some trouble with the crackers, but our crackers were running and some of the polyethylene plants were down. We had Seadrift down, for example. So we had a little bit different mix than we usually had with more hydrocarbon sales. Our view going forward is we'll have less of that next year. I think we'll have a lighter crack slate next year, which means less by-products in Europe. This year, we had a big season in Europe. Butadiene prices spiked and so I think that's going to come off a little bit. We are going to have higher hydrocarbon costs through the year. So we're anticipating we'll be able to keep up with that, but we're not anticipating a huge margin improvement on that. And we've got some start-up costs in the first part of the year. So I think, in general, you're right. The Plastics business, volumes are going to increase, but the hydrocarbons by-product sales and the ethylene sales are going to come down a bit. And with the lighter crack slate, it'll be a little bit less advantageous in Europe for us for by-products sales.

Operator

And that is all the time we do have for questions. I would now like to turn the call back over to Mr. Neal Sheorey for any additional or closing remarks.

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

Thank you, Rochelle, and thank you, everyone, for joining our call. 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 very much.

Operator

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

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