

Dow Strategic Update: Agrochemicals Divestiture a Realistic Possibility by 2017

Date: 2015, April 16

Deutsch Bank-Market Research Analysts comment the strategic update that Dow made recently during its Sadara Investor meeting in Saudi Arabia on March 19, 2014 and consider that a divestiture from agrochemicals business would be a realistic possibility driven by Value Creation for Share holders.

On Wednesday, March 19 Dow CEO Andrew Liveris provided a company-wide strategic update on Day 1 of its Sadara Investor Meeting in Saudi Arabia.

Dow's strategic update did not disappoint with CEO Andrew Liveris, for the first time, highlighting a path to the separation of Agro once it validates its target

of doubling EBITDA from \$1B in '13 to \$2B in '17. With hybrid Agro businesses valued at 11-12x EBITDA vs Dow's current 7.5x EBITDA multiple, a tax free spin of Agro (the most likely option) would be, in our view, a value creating event for shareholders. We believe a tax free spin of Agro could occur in '17. Mr.

Liveris also increased the y/e '15 divestiture target by an additional \$1.5-\$2.0B (to \$4.5-\$6.0B) as Dow continues to shed non-core businesses.

Strategic update: Key take aways (Extracts)

1) Q1 has been negatively impacted by severe winter weather which reduced earnings in Ag and disrupted transportation and logistics.

2) Mr. Liveris outlined a path for the separation of the \$7B in sales Ag business. We believe this is due to the attractive valuations of 11-12x EBITDA being afforded hybrid crop chemical and seed businesses such as Dow's. However, a separation will not occur until Agro is tracking towards its target of doubling EBITDA from \$1B in 2013 (with 14% EBITDA margins) to \$2B in 2017-2019 (with 25% margins) as at this point, adequate value would be attributed to it in a separation. Of The \$1B increase in EBITDA, \$300-\$400MM will come from crop chemicals and \$600- \$700MM from Seeds (currently negative EBITDA). A tax free spin is the most likely option as a sale would result in a large tax bill.

3) Dow increased its y/e'2015 divestiture target from \$3-\$4B (primarily from the sale of chlorine-related commodity businesses) to \$4.5-\$6.0B. The \$1.5-\$2.0B increase is from the further shedding of non-core assets with EBITDA of ~\$300MM as Dow continues its decade long journey to become a higher growth, higher margin, more focused and less cyclical company.

Positioning of Agricultural Sciences Segment

Agricultural Sciences is one of the 7 business segments of DOW with Electronic and Functional Materials, Coatings and Infrastructure Solution, Performance Materials, Performance Plastics, Feedstocks & Energy and Others. With 7.2 Bn Us \$ sales, it accounts for 12% of Dow 2013 sales.

The Agricultural Sciences segment is forecasted to reach the highest sales growth for 2014 and 2015 with 7-8% yoy vs 2-5% for other segments

The Agricultural Sciences segment generated a 13% EBITDA adjusted margin in 2013, lower than Performance Plastics (28%) and Electronic and Functional Materials (23%) but higher than Coatings and Infrastructure Solution (13%), Performance Materials (11%), Feedstock and Energy (8%).

Agricultural Sciences Commercialize powerful R&D pipeline

- 300-400 bps of near-term EBITDA margin opportunity
- In Crop Protection, new products deliver faster top-line growth than industry at above-average segment margins
- Acceleration of SmartStax® platform in North America and Latin America

- Achieve scale efficiencies in Seeds, Traits and Oils
- Ramp-up Enlist™ corn, soybeans and cotton

Source: Deutsche Bank Market Research - March 20, 2014

Complete document available on Performance Solution e-room

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