DuPont (DD): proxy contest with Trian Fund Management

Recommendation:
Vote FOR dissident nominees Peltz and Myers

Record Date	March 17, 2015
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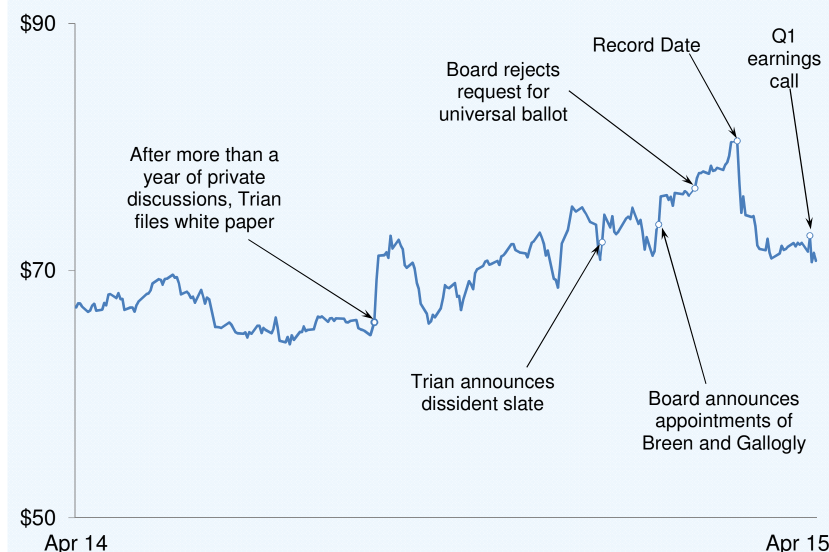
Chart Focus



Source: Bloomberg Finance LP

Executive Summary

Trian Fund Management, a 2.7% DuPont shareholder which first began accumulating shares 18 months ago, but made no public statements about its ideas for increasing shareholder value until after more than a year of engaging the company privately, is now soliciting support to elect four nominees to the 12-member DuPont board.

In analyzing proxy contests, ISS focuses on two central questions:

1. Have the dissidents made a compelling case that change is warranted?

2. If so, which nominees are most likely to drive that change?

Is Change Warranted?

Total Shareholder Return

Measuring the company's TSR over time is not difficult—but understanding whether that TSR outperformed or underperformed its potential is. Almost by definition, a conglomerate has no true peer (since no other conglomerate has the same portfolio of businesses in approximately the same mix). The problem is compounded, though, by the fact the company has been significantly reconfiguring its portfolio of businesses as well, changing even the company's own business profile over any meaningful measurement period. Calculating what its performance could or should have been, on a TSR basis, may be impossible, given the lack of any meaningful benchmark or close peer over a sustained period.

As TSR is a standard assessment which both sides have used in this contest, however, ISS analyzed the company's TSR relative to a group of industrial/chemical conglomerates whose business mixes appeared to have meaningful competitive overlap with DuPont's. Over the three-year period ending Sept. 16, 2014 (the last trading day prior to

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the dissident's release of a white paper detailing their strategies to unlock shareholder value), the company's TSR was 56.3%, 40.7 percentage points below the median of the peer group and 20.8 percentage points below the S&P500 Index. Over the five-year period ending on the same date, the company's TSR of 132.2% marginally underperformed the median of peers by 4.3 percentage points, and meaningfully outperformed the S&P500 index by 24.4 percentage points.

The heart of the dissident critique, however, is not TSR underperformance but the failure, since the world "normalized" from the 2008 financial crisis, to keep pace with the margin performance of peers, much less meet the company's own publicly-identified revenue growth targets, in most of the business segments which continue to make up its core businesses.

The company's share price appreciation is no longer driven by fundamentals, the dissidents assert: share prices have ticked up, perhaps in part due to the dissident's presence in the stock, even as financial performance has been stagnant. This is most strikingly evident in comparing share price performance to EPS from 2011 through the present: while share prices have increased, EPS —even including 2015 guidance—remains below 2011 levels.

Margins

The company contends it has substantially strengthened its portfolio businesses, including expanding EBITDA margins by between 210 and 1,360 basis points between 2008 and 2013, and that as a result these portfolio businesses are "competitively well-positioned." From 2008 through year-end 2014, it notes, segment adjusted operating margin expanded by 740 basis points.

The dissidents counter that some margin expansion from ground zero of the financial crisis—fiscal 2008—was inevitable: the real issue is that the company has failed to deliver peer-level margins, relying instead on the economic recovery to do all the work.

2008 may seem an appropriate year against which to benchmark a CEO who took office in January 2009. It was also an enormously aberrant year on nearly every significant financial metric for many companies, given the global effect of the financial crisis which played out that year and into 2009. That there has been a recovery under the current CEO is better than the alternative—but going back one year prior to a black swan event to establish the benchmark for comparison seems more prudent, since it better controls for the effects of the financial crisis.

That perspective lays bare compelling evidence that the dissidents have a point. Excluding the current Health & Nutrition business, which the company did not own in 2008, and the effect of a commodity boom in ethylene, which was beyond the control of management, DuPont's aggregate EBITDA margin for its continuing businesses increased by only half a percentage point over 7 years (measured as the trailing twelve months through the just-reported Q1 2015), or about 8 basis points per year.

That corporate performance includes some standout segment performance: even excluding the ethylene commodity boom, Performance Materials increased its EBITDA margin by nearly 4 percentage points over the 7 year period, and Agriculture— the company's largest segment by revenue—increased EBITDA margin by 2.5 percentage points, or about 35 basis points per year. But the positive performance in three segments masks deteriorating performance in the other two: Performance Chemicals lost 2.4 percentage points of EBITDA margin over the 7 years, or 35 basis points per year, while Safety & Protection lost 5.3 percentage points of EBITDA margin, or about 74 basis points per year.

If the net effect on continuing core businesses, after controlling for the effect of the financial crisis of 2008, was to add a bare half a point to the aggregate EBITDA margin of those businesses, it seems prudent to look more closely at the question of how well those businesses are positioned against competitors.

As one prismatic example for which all the relevant data is publicly available, we took Agriculture—the largest of the segments at 40% of 2014 revenues, but also one of the stronger segments in terms of margin expansion since 2008—as a test case. In a Fall 2014 investor presentation, the company pointed out that the segment's adjusted EBITDA margin (including corporate allocations) was 22.6%, 30 basis points higher than the average of the six segment peers.

Revenue for DuPont's Agriculture business in 2014 came from both seeds (70%) and Agricultural Chemicals (30%). In calculating the peer EBITDA margin for comparison, however, the company weighted each of the six peers equally—despite the facts that only one of them has a meaningful seed business, and that seed business has a meaningfully higher EBITDA margin, at 28%, than the Ag Chemicals businesses. Using a weighted average of the Seed

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and Ag Chemicals competitor EBITDA margins, a more appropriate basis for assessing the competitiveness of DuPont's segment margin, is far more informative. Against a weighted average competitor EBITDA margin of 26.2%, DuPont's Agriculture segment EBITDA margin in its largest segment is not 30 basis points better but 357 basis points—nearly four percentage points—worse.

Revenue

Even with a relatively flat aggregate margin, however, the company should have been able to beat its 2011 EPS number during the succeeding three years. One central reason it has not, the dissidents emphasize, is that it has failed to deliver organic revenue growth which matches peers, much less meets its own targets. Within the Agriculture segment for example, Ag Chemicals (which the dissidents refer to as Crop) grew total revenue at a 5.7% CAGR from 2008 through 2014. Peers, however, grew their revenue at an 8.1% CAGR, or nearly half again as fast. The growth rate of DuPont's Ag Chemicals business was also barely half the 8-10% target the company set for itself in 2011, and reaffirmed in 2013. In the Safety & Protection segment, which represented 12% of DuPont's sales in 2014, revenue actually declined at a compound rate of (0.2)% from 2008 to 2014, far below the long-term target of 8-10% the company set in 2011, or even the revised target of 5-7% it set in 2013. Its most comparable peer, 3M, grew revenue at a compound annual rate of 3.2% over the period. Performance Materials, 22% of 2014 sales, also grew at an anemic CAGR of just 1.9% from 2008 through 2014, less than half the 4.5% CAGR of peers (which was itself near the high end of the 3-5% revised target DuPont set for its own business in 2013).

This is all the more disconcerting given the board's rallying cry that the dissidents, if elected, will cut the R&D spending that drives a key competitive advantage. In 2013 and 2014, new products (those launched within the previous four years) from DuPont's innovation platform accounted for $10 billion (28%) and $9 billion (32%) of total sales, respectively (the 2014 calculation excludes data for the Performance Chemicals segment).

The dissidents, for their part, assert they have no intention of cutting R&D, but would extend the board's focus beyond merely investing in R&D to the matter of return on that investment. The question is not whether the company should be doing R&D, they contend, but whether it is appropriately managing the commercialization of that R&D. Cannibalization of revenue in and of itself is not necessarily a bad strategy: to use a less gruesome metaphor, it is far better to eat one's own lunch than to have a competitor eat your lunch. But cannibalizing one's own revenue, or even just making up in one segment for what is being lost in another, is at best a holding strategy, not a growth strategy.

One key question is whether the R&D produces entirely new products, or simply cannibalizes existing revenue by delivering "new and improved" products. When the company last provided such information in its 2007 data book, about two-thirds of "new" products were replacing existing products. Revenue trends for the four years whose product launches provided the $9 billion in "new product" revenue for fiscal 2014 suggests the R&D effort is providing no net new growth in aggregate revenue. In the six largest segments, which comprised more than 96% of total corporate revenue over these four years (including Performance Chemicals, which had not yet been spun out, but excluding Industrial Biosciences, which the company did not own for the full period), 2014 revenue was lower than either of the two preceding years, and a mere 80 basis points higher than revenue in the first year of the period.

Not all of this is cannibalization—some segments did grow revenue over the period, which may be evidence of truly new products rather than mere replacement. In aggregate, however, the "innovation platform" failed to provide net revenue growth across the six large segments.

Cost

The dissidents assert the company carries significant excess cost of as much as $2-4 billion, which—considered in the context of $5.6 billion in EBITDA last year—can begin to seem like real money.

The company's response appears to be that "DuPont does not even have $4 billion in total corporate costs—functional overhead, including corporate costs, was approximately $2.8 billion in 2014." Through the Fresh Start initiative it launched in 2014, moreover, the company has already targeted annual ongoing savings of $1.3 billion "and is committed to continuing the evaluation of additional savings opportunities."

This defense may sound like a backhanded admission that there is in fact too much unproductive cost, and the only material difference between the board's and the dissidents' views is the size of the actual opportunity. That perception is oversimplified: the largest identified chunk of "cost savings" targeted by

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the board's $1.3 billion plan is the $375 million in operating expense for the Performance Chemicals business—savings the company will "realize" simply by spinning the Performance Chemicals business later this year.

The alleged $2-4 billion in excess "corporate costs" may, in fact, not be "corporate costs" as the income statement defines them—but the hard evidence from the sale of the Coatings business strongly suggests there are unnecessary and unproductive costs in the organization, and that they are significant.

DuPont reported total segment EBITDA for the Coatings business of $339 million in 2011, the last full fiscal year before it was sold to a private equity firm. When the PE firm filed an S-1 to take the company (now rechristened Axalta) public two years later, it was required to report proforma 2011 financials from the perspective of the standalone business—including all the expenses necessary to run the business on a standalone basis, but without any corporate allocation for which it perceived no incremental benefit. The Axalta S-1 reported 2011 EBITDA, based on the same historical revenue number but net of corporate costs its owners found unnecessary, of $568 million.

The $229 million difference between what DuPont reported, including allocated and unallocated corporate costs, and the EBITDA Axalta reported it would have earned by paying only the expenses required to run the business well, is evidence, the dissidents contend, of rampant excess costs in the DuPont corporate structure. Extrapolating based on the percentage of segment sales or EBITDA which that $229 million represents, the dissidents arrive at a total DuPont cost problem of $1.9-3.7 billion. (In response to the board's criticisms that the extrapolation is based on incorrect assumptions, the dissidents calculated the figure based on employees—as indicated by the company's response—and arrived at a number of $1.7 billion).

Strangely, for a company which dismisses the argument that there is excessive cost in the corporate structure, DuPont's Fresh Start initiative appears to be taking up an analytic framework similar to the one that allowed the PE buyer to wring substantial excess cost out of the Coatings business. These include reducing complexity, clarifying accountability, and improving organizational agility with spans, layers and levels better than benchmarks.

Restructure?

Arguably the biggest question raised in this entire proxy contest—should DuPont be broken up?—turns out, after analysis of the numerous other aspects of the dissident critique, to be the easiest to answer:

We don't know, and neither does anyone else outside the DuPont boardroom.

This is not a ringing endorsement of the board: what it highlights is a failure of the board to communicate fully and credibly with shareholders. What the dissidents have based their campaign on is the point, repeatedly demonstrated in the company's soliciting materials, that shareholders need both far more transparency about business performance and enhanced board accountability for promised performance. This comes through in everything from the company's representation of EBITDA margins as "competitive" when (assessed against an appropriately-calculated average peer margin) they are significant uncompetitive, to its silence on the growing disconnect between an "innovation platform" which drives growth and the multi-year stagnation of total revenue, to its use of a narrow accounting definition of "corporate costs" to blithely dismiss concerns (grounded in SEC filings) about significant excess costs throughout the organization.

Segment EBITDA margins will not tell you whether the company should remain intact or be broken up. Neither will understanding whether the company has achieved or badly missed its revenue targets, nor the IPO filings of a recently-divested business which appear to demonstrate, in their stark contrast to the company's own financials reports when it owned the business, the extent of the non-productive cost issue.

What all those things will tell you, however, is how much confidence you should have in a board and management team which seem unable to address the hard truths these things reveal about the opportunity to create significant value just through managing the business more accountably, long before the question of whether the current structure is optimal becomes ripe.

Still more confounding is that the board itself, in launching the Fresh Start initiative, seems to have implicitly acknowledged that there is work to be done. This would be promising if the difference with the dissidents came down to just a difference in predictions about the scale of the opportunity. It is not. The first order of business on the board's list—spinning the Performance Chemicals unit, along with its operating costs—won't do anything for cost

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efficiency in the ongoing operations. If it is true that spinning the Performance Chemicals will reduce expenses, one has to at least concede it will also reduce revenue, which is hardly the point of cost-cutting to begin with.

This is ultimately just financial sophistry. Spinning off a business to "cut costs" is like removing your coat so you can tell the doctor you've lost weight: repeat the move until you've shed the last vestige of modesty, but you still won't have addressed the real issue

Conclusion: Is Change Warranted?

This is not a broken company—but there is compelling evidence that the dissidents are onto something in their critique. Operating efficiency is not what it should be, yet instead of addressing the core issues, the board and management, at least in their communications with shareholders, are more inclined to obfuscation than accountability.

The risk, ultimately, is highlighted in the telling example with which the dissidents began their critique: the rise in share prices which the board touts as evidence of "delivering superior shareholder value" is increasingly disconnected from financial performance. It cannot remain disconnected forever, particularly when the company is still forecasting that key metrics of performance, like EPS, will continue to underperform the level they achieved more than three years ago, no matter how many "new" products the company's "innovation platform" has launched in the interim.

The dissidents have also criticized the company for poor corporate governance.

On the surface, this makes no sense. This is a company with an annually-elected board and a majority voting standard which allows shareholders to call special meetings and act by written consent. It has neither a poison pill in place nor supermajority voting requirements to amend the governing documents or approve a sale of the company, appearing instead to allow shareholders full use of the most elemental rights of ownership and control. It appears to manage board succession thoughtfully, through annual performance appraisals and a long-game recruiting process that brought aboard two highly regarded former CEOs, in the midst of a high profile proxy contest, who even the dissident publicly commended in response to the announcement. In stark contrast to so many companies facing a proxy contest, none of its governance provisions appear to have been adopted in response to "an activist" being in the stock, suggesting the board's commitment to principals of good governance runs much deeper than political expediency.

And yet good corporate governance is ultimately about substance as well as form, outcomes as well as provisions. At some point good governance has to eschew sleight-of-hand in demonstrating to shareholders the "competitiveness" of the business itself, or address the full reality of a fact pattern rather than the narrow distinction of an accounting definition, or hold a board and management team accountable for the operating performance they promise, not deflect to mere share price performance when the two become disconnected.

If it remains utterly unclear whether this company should in fact be broken up, it seems eminently clear that there is a compelling need for a minority change at the board level to address these myriad other, more immediate and perhaps more promising, issues the dissidents have substantiated.

Which Nominees?

Will a Trian Executive Be Too Disruptive?

The company has insisted a Trian executive—Peltz or alternate nominee Garden—would be inappropriate for the board because Trian has a "practice of establishing a 'shadow management team' committed to advancing Trian's agenda," which the board asserts is "to advance a break up proposal."

The specter of a "shadow management team" certainly sounds sinister. Trian is explicit about the fact that when one of its executives goes on a board, the firm dedicates analysts to supporting that director, including ongoing, extensive analysis of strategies, performance, and other issues as well as preparation for board meetings. For a management team, getting that sort of intensive, unsolicited "help" can be unwelcome. Shareholders, however, should consider the larger question of whether it may be necessary: have management and the incumbent board demonstrated sufficient accountability for results, and clarity in their communications with shareholders, that such "help" is unnecessary? In this case, as the analysis of Question 1 of our framework demonstrates, there is credible reason to believe such "help" might be beneficial to shareholders.

Trian has reiterated repeatedly that it would like to explore with the enhanced information available inside the boardroom whether "management is capable of achieving best-in-class revenue growth and margins with the existing portfolio or whether

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there is a need to separate the portfolio." It has also stated repeatedly that its nominees are "open-minded as to the best path forward." Clearly, if any dissident nominee is elected to the board, regardless of whether he is a Trian executive, this discussion is likely to take place. Given the company's demonstrable difficulty communicating clearly and unequivocally with shareholders about its actual performance, operating challenges, and accountability for results, however, there seems little reason to believe a robust, fact-based boardroom discussion of this topic, as well, would somehow not be in the best interest of shareholders.

This is particularly the case when the dissidents, even if successful in winning all four seats, would still represent only a minority of the board. Given the evidence of other such situations in which Peltz served as a director—such as Ingersoll-Rand, where he was persuaded through discussion and the better information available to those in the boardroom that a three-way breakup was not feasible—the real risk seems less that one wily shareholder nominee outfoxes eight incumbents than that the right issues are never fully aired.

Nominees

The evidence of this contest strongly suggests that the extensive preparation of the Trian method—providing its executives who go on boards with extensive analytic support throughout their tenures— may be not simply desirable, but necessary to drive the appropriate change. Ultimately this appears to be less about a "shadow management team" than about a commitment to informed and effective participation in the boardroom. Peltz' election thus seems clearly in the best interest of all shareholders.

Myers' background running General Electric's asset management subsidiary for 20 years obscures his full appeal for this particular board assignment: over 35 years with GE he also served in a number of other management positions in what was, at least at the time, considered one of the premier management academies in corporate America, developing a firsthand experience in the challenges and opportunities of managing a multinational conglomerate.

The GE Asset Management story itself, however, may best illustrate why his presence in this board room could be advantageous for all shareholders. Myers grew the asset management business from $58 billion to $200 billion in AUM over his two decades—a 13% CAGR. As one consequence, GE did not have to make any corporate contributions over the two decades of his tenure. Like Peltz, he brings an investor perspective to the boardroom—but he also has significant, long-term experience managing and growing a business within a larger conglomerate structure.

Both Zatta and Winkleblack appear well-qualified nominees, particularly given their experiences as CFO's with significant strategic responsibilities. In an engagement with the dissident nominees as part of our research process, their CFO experiences seem sufficiently diverse to believe they would be complementary, not duplicative, in the boardroom.

Our analytic framework, however, focuses on the question of which nominees are necessary to drive the appropriate change in the board room, not the larger question of what the optimal selection, out of all available nominees, might be.

Accordingly, as the dissidents have made a compelling case that change is warranted, we recommend votes on the dissident card FOR nominees Peltz and Myers.

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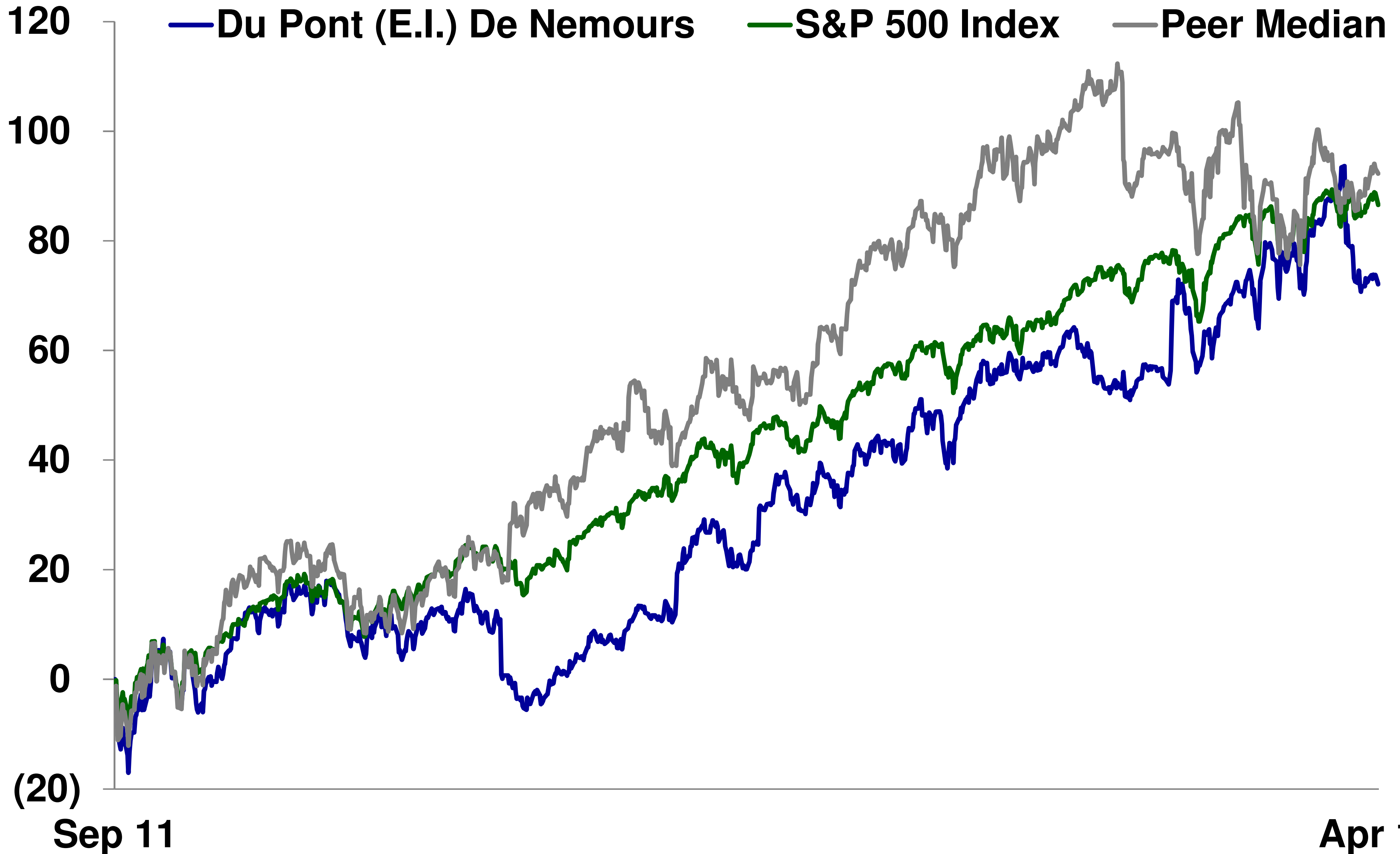
3-Year Total Shareholder Return



Source: Bloomberg Financial L.P. Peers include 3M Co, BASF, Celanese Corp-Series A, Danaher Corp, Dover Corp, Dow Chemical Co, Eastman Chemical Co, Eaton Corp Plc, Emerson Electric Co, FMC Corp, General Electric Co, Honeywell International Inc, Huntsman Corp, Ingersoll-Rand Plc, United Technologies Corp.

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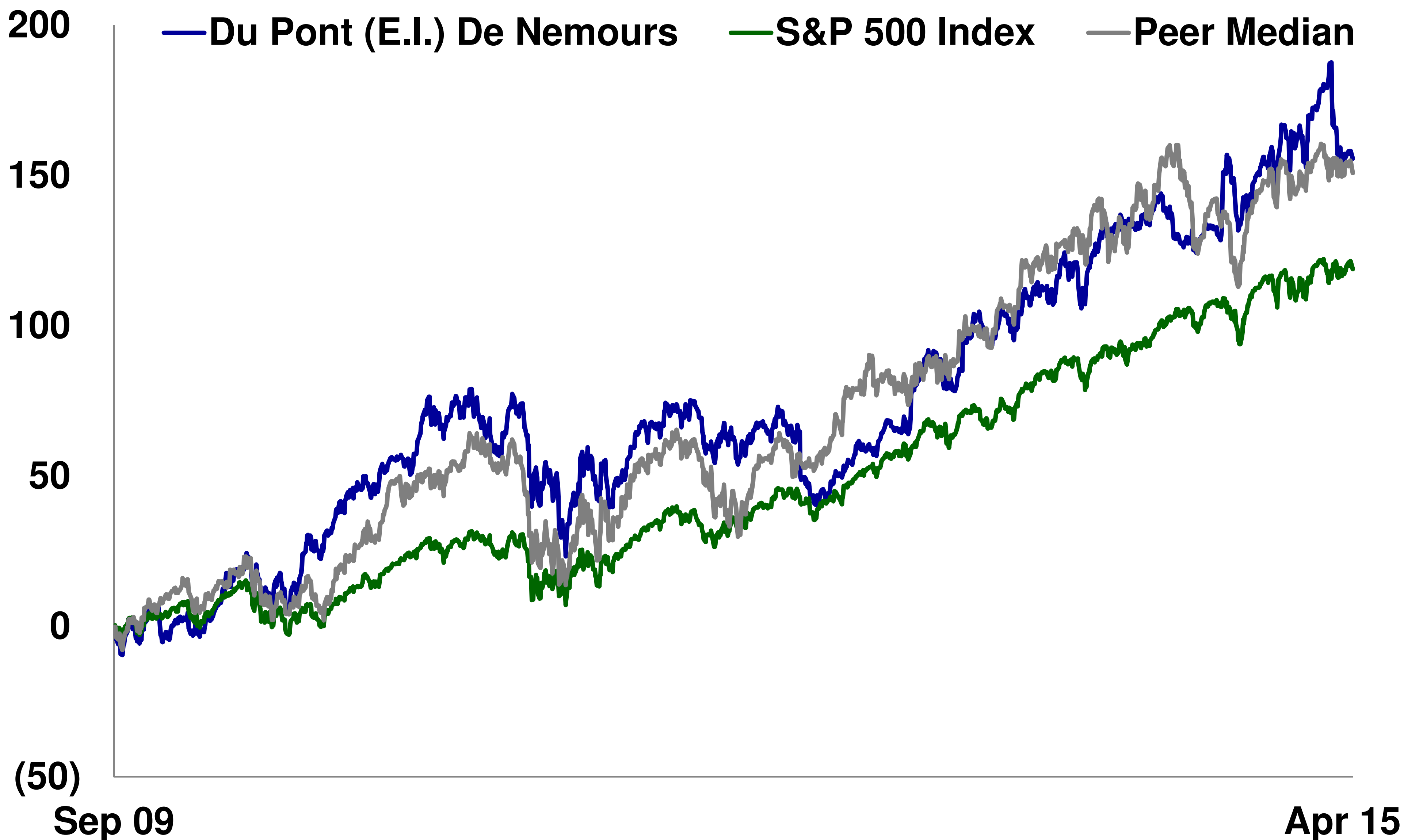
5-Year Total Shareholder Return



Source: Bloomberg Financial L.P. Peers include 3M Co, BASF, Celanese Corp-Series A, Danaher Corp, Dover Corp, Dow Chemical Co, Eastman Chemical Co, Eaton Corp Plc, Emerson Electric Co, FMC Corp, General Electric Co, Honeywell International Inc, Huntsman Corp, Ingersoll-Rand Plc, United Technologies Corp.

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Historical Performance—Financial Metrics

	FY 2014 (mils)	FY 2013 (mils)	FY 2012 (mils)	FY 2011 (mils)	FY 2010 (mils)	FY 2009 (mils)	Five-Year CAGR
Market Cap	$ 66,986	$ 60,169	$ 41,941	$ 42,297	$ 45,535	$ 30,429	
Income Statement							
Revenue	$ 34,723	$ 35,734	$ 34,812	$ 33,681	$ 31,505	$ 26,109	5.9 %
SG&A	$ 5,344	$ 3,554	$ 3,527	$ 3,358	$ 3,669	$ 3,440	9.2 %
Capex	$ (2,020)	$ (1,882)	$ (1,793)	$ (1,843)	$ (1,508)	$ (1,308)	9.1 %
R&D Expense	$ 2,067	$ 2,153	$ 2,123	$ 1,910	$ 1,651	$ 1,378	8.4 %
EBITDA	$ 5,662	$ 5,130	$ 4,767	$ 5,046	$ 4,453	$ 2,876	14.5 %
Operating Income	$ 4,045	$ 3,527	$ 3,054	$ 3,486	$ 3,073	$ 1,373	
Net Income	$ 3,625	$ 4,848	$ 2,755	$ 3,474	$ 3,031	$ 1,755	15.6 %
Balance Sheet							
Cash	$ 6,910	$ 8,941	$ 4,284	$ 3,586	$ 4,263	$ 4,021	11.4 %
Total Debt	$ 10,694	$ 12,462	$ 11,740	$ 12,553	$ 10,270	$ 11,034	(0.6)%
Shareholder's Equity	$ 13,378	$ 16,286	$ 10,299	$ 9,062	$ 9,743	$ 7,651	11.8 %
Cash Flow							
Operating Cash Flow	$ 3,712	$ 3,179	$ 4,849	$ 5,152	$ 4,559	$ 4,741	(4.8)%
Free Cash Flow	$ 1,692	$ 1,297	$ 3,056	$ 3,309	$ 3,051	$ 3,433	(13.2)%
Margins and Return Ratios							**Change**
Operating Margin	11.6 %	9.9 %	8.8 %	10.4 %	9.8 %	5.3 %	6.4 ppt
EBITDA Margin	18.6 %	13.1 %	10.8 %	13.5 %	14.2 %	8.8 %	9.8 ppt
Return on Assets	7.2 %	9.6 %	5.6 %	7.8 %	7.7 %	4.7 %	2.4 ppt
Return on Common Equity	24.9 %	37.3 %	30.0 %	39.8 %	37.7 %	25.2 %	(0.3) ppt
Return on Capital	14.8 %	20.6 %	14.4 %	18.7 %	18.3 %	11.7 %	3.1 ppt
Return on Invested Capital	12.4 %	15.1 %	15.5 %	17.9 %	16.9 %	7.6 %	4.9 ppt

Source: Bloomberg Finance LP

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Shareholder Base

		Ownership Stake				
		Shares	Pct O/S	Filing	Date	Investor Type
1	Blackrock	57,297,254	6.3%	ULT-AGG	12/31/14	Investment Advisor
2	Vanguard	50,112,269	5.5%	13F	12/31/14	Investment Advisor
3	State Street	43,973,833	4.9%	13F	12/31/14	Investment Advisor
4	Capital Group	39,310,005	4.3%	ULT-AGG	12/31/14	Investment Advisor
5	Trian	24,313,084	2.7%	13F	12/31/14	Hedge Fund Manager
6	FMR	23,645,999	2.6%	ULT-AGG	12/31/14	Investment Advisor
7	Franklin Resources	19,416,148	2.1%	ULT-AGG	3/31/15	Investment Advisor
8	Bank Of New York Mellon	14,112,663	1.6%	13F	12/31/14	Investment Advisor
9	Northern Trust	13,181,713	1.5%	13F	12/31/14	Investment Advisor
10	JPMorgan	13,091,641	1.5%	ULT-AGG	12/31/14	Investment Advisor
11	Janus	12,267,695	1.4%	ULT-AGG	12/31/14	Investment Advisor
12	Bank Of America	10,900,753	1.2%	13F	12/31/14	Investment Advisor
13	Dupont Capital Mgmt	9,969,322	1.1%	13F	12/31/14	Investment Advisor
14	Macquarie Group	7,410,871	0.8%	ULT-AGG	12/31/14	Investment Advisor
15	UBS AG	7,405,366	0.8%	ULT-AGG	2/28/15	Investment Advisor
16	State Farm	7,042,535	0.8%	13F	12/31/14	Insurance Company
17	M & T Bank	6,938,077	0.8%	13F	12/31/14	Investment Advisor
18	Wells Fargo	6,851,155	0.8%	ULT-AGG	2/28/15	Investment Advisor
19	Geode Capital Mgmt	6,822,221	0.8%	13F	12/31/14	Investment Advisor
20	Ameriprise	6,821,891	0.8%	ULT-AGG	12/31/14	Insurance Company
		380,884,495	42.0%			

Source: Bloomberg Financial LP

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Background

Trian Fund Management, L.P., now a 2.7% shareholder, began buying shares in 2013, and first engaged management to discuss its ideas for unlocking shareholder value in July of that year. Though media accounts of Trian's investment appeared even prior to the investor's first meeting with DuPont, the two sides continued to engage privately on Trian's ideas, as laid out in its white paper analysis, as well as the company's performance, for more than a year. In September 2014, after having been rebuffed several times on its strategic proposals as well as its request for board representation, Trian made its views known by publicly filing a new board letter along with a summary of the analyses and recommendations in the white paper.

Though there have been several settlement offers exchanged, the board continues to assert there can be no settlement which includes appointing Trian CEO Nelson Peltz to the board, and Trian continues to assert it will not accept a settlement which does not include appointment of a Trian executive to the board. The media has several times reported that large shareholders were also pushing both sides to reach a settlement; one of these reports appears to be confirmed in the "Background to the Solicitation" section of the Trian proxy statement.

The board has added four new independent directors in the past year.

- Two independent directors were added effective October 2014. One of these replaces an incumbent director who, having reached the age of 72, may no longer stand for election under the company's corporate governance guidelines, and will therefore retire at the 2015 annual meeting.
- In connection with the announced spin-out of its Performance Chemicals unit into a publicly-traded company to be named Chemours, two other incumbent directors—who will become Chemours directors—stepped off the DuPont board, and were replaced with two new independent directors, effective February 2015.

Key Events

The following represents a timeline of key events as described in the definitive proxy statements of the company and the dissident. No attempt has been made in this timeline to reconcile any conflicting accounts of a given event, or to edit out events which only one side felt merited mention.

2011 –13	As part of its ongoing review and optimization of the business, DuPont acquires Danisco (2011), "a leading participant in the enzyme and specialty food ingredients industries," begins reviewing separation of its Performance Chemicals business (2012), and sells its Performance Coatings business (2013).
Mar. 15, 2013	Trian begins buying DuPont shares. Three months later it informs the company it has made "a significant" investment, and requests meeting with CEO.
July 17, 2013	Media reports of Trian's investment in DuPont begin to circulate. Shares rise 5.3%, outperforming the S&P 500 by nearly 5 percentage points. Trian later reports this is DuPont's largest one-day outperformance of the benchmark index since the current CEO began her tenure in 2009.
July 23, 2013	DuPont announces it will sell or spin-out the Performance Chemicals business
July 24, 2013	CEO, CFO meet with Trian representatives including Partner and CIO Edward Garden to review a Trian white paper on strategies to unlock shareholder value, including breaking the company into four parts: an agriculture-focused company; an industrial biosciences, nutrition and health-based company; a TiO2 focused company; and the remaining DuPont businesses in a fourth company.
Sept. 3, 2013	DuPont announces addition of new independent director, Cummins Inc. CFO Patrick J. Ward, effective October 23, 2013.

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2013-2015 DuPont executives and/or advisors meet with Trian representatives more than 20 times to discuss the company's performance and Trian's ideas for unlocking shareholder value.

In its proxy statement, Trian notes that after some of these meetings raised concerns "that the company's financial advisors had not sufficiently reviewed Trian's financial model," the fund "proposed a sub-committee or 'all-hands' conference call to facilitate a comprehensive review" of the white paper, but that despite company representatives stating that a sub-committee call was a good idea, "multiple calls were delayed or cancelled by the company."

Oct. 15, 2013 In a telephone call with the CEO, Trian's Garden requests the company implement Trian's proposals and add two nominees—Garden and an unnamed industry executive—to the board or face a public proxy contest. The company, "not believ[ing that] having its previously scheduled meeting with Trian the following day would be productive," cancels that meeting.

In its proxy statement, Trian notes that the Oct. 15 phone call "was immediately terminated" by the CEO and CFO "after Mr. Garden suggested that if common ground could not be found, one option that had not been discussed but that he wanted to 'put on the table' was the possibility of adding Mr. Garden and a mutually acceptable industry executive" to the board.

Oct. 23, 2015 Trian requests its analyst be included in an investor field trip to DuPont Pioneer sponsored by Deutsche Bank and scheduled for November 19. The company responds by email that "in light of recent events, it would not be appropriate for you to attend."

Oct. 24, 2013 DuPont announces it will spin-out the Performance Chemicals business.

Oct. 25, 2013 DuPont informs Trian the board has reviewed, and "unanimously rejected," the analysis and conclusions of Trian's white paper, including the proposed break-up the company, and has also declined Trian's request to appoint Garden to the board.

Nov. 5, 2013 Trian and CalSTRS voice concerns in a letter to the Lead Director "that despite repeated attempts to engage in constructive dialogue over the prior four months, Trian had only two meetings with senior management and/or the company's advisors and only one of which included" the CEO.

Dec.5, 2013 DuPont's CEO and Lead Director meet with representatives of Trian and the California State Teachers' Retirement System (CalSTRS) to discuss the company's performance and a revised Trian white paper proposing the company, after spinning out the Performance Chemicals business, split the remainder of its business into a "GrowthCo" of agriculture, industrial biosciences and nutrition and health-based businesses, and a "CyclicalCo" of its performance materials, electronics and safety and protection businesses. Trian reiterates its request for board seats, again raising the specter of a proxy contest as the alternative, but does not provide formal notice of nomination as required under the bylaws.

Feb 2014 The board reviews the revised white paper with its advisors, and again concludes that shareholders are better served if it "continues to pursue the Company's strategic plan" instead. Nonetheless, the company and Trian "continue their dialogue" on the company's performance and strategy.

June 27, 2014 Company lowers guidance to $4.00-$4.10; announces Fresh Start cost reduction program for $1.0 billion (later increased to $1.3 billion).

Aug. 4, 2014 DuPont announces the appointment of Ulf M. Schneider, President and CEO of Fresenius SE, to replace incumbent Bertrand P. Collomb, who will retire at the 2015 annual meeting as required by the board's policy on directors who reach age 72. (Schneider's appointment is effective Oct. 22, 2014.)

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Aug. 6, 2014 — After DuPont's Lead Director informs Trian the board has again "unanimously rejected the analysis and conclusions " of the revised white paper, Trian reiterates its request that DuPont appoint Garden to the board "or Trian would take the matter to DuPont's stockholders." Six days later the board informs Trian it has again rejected Trian's request for board representation.

Sep. 16, 2014 — Trian publicly files a new letter to the board as well as a summary of its white paper. Shares rise 5.2%, outperforming the S&P 500 by just over 5 percentage points (and becoming the new high-water mark for outperformance of the benchmark index since the current CEO began her tenure in 2009).

Over the subsequent week DuPont's CEO exercises and sells options representing ~23% of her stake, Trian estimates, "while the stock hit a new 15-year high." In aggregate since Trian first began buying shares in March 2013, the fund estimates, "the CEO has disposed of ~749,927 net shares, or ~54% of her equity position." Acknowledging that "most of these sales ...were made pursuant to Rule 10b5-1 trading plans," which provide for automatic or formula-driven sales by executives, Trian emphasizes that such plans also "may generally be terminated or amended prior to their predetermined end." Most of the options, Trian notes, would not have expired for more than a year.

Oct. 29, 2014 — After several weeks attempting to set up a meeting—including Trian eventually elevating to the Lead Director what it believed to be DuPont management's unresponsiveness—the CEOs of Trian and DuPont meet for the first time.

Fall 2014 — After an rejecting an additional Trian request for board representation, DuPont begins searching for candidates to replace two incumbent directors—Richard H. Brown and Curtis J. Crawford—who will leave the DuPont and become part of the board of the Performance Chemicals spin-out, the Chemours Company. The board ultimately settles on candidates Edward D. Breen and James L. Gallogly.

Dec. 10, 2014 — In a meeting with Trian, the company's financial advisor "communicated that the board was 'resolute' that it would not appoint any Trian nominees to the board and instead preferred to engage in a proxy contest."

Jan. 8, 2015 — Trian delivers notice it will nominate four board candidates at the 2015 annual meeting. The nominees include Trian CEO Nelson Peltz and three candidates not otherwise connected to Trian; Garden is also listed as an alternative nominee should the company increase board size prior to the meeting, or announce any other action which would have the effect of disqualifying any of the four Trian nominees. At the end of January, the Governance Committee interviews each of the Trian nominees; the CEO interviews all except Peltz.

Feb. 4, 2015 — DuPont's CEO and Lead Director inform Peltz that the candidates the board had previously identified for the two upcoming openings —Breen and Gallogly—"were superior candidates to each of Trian's candidates." DuPont proposes adding an additional nominee from Trian, who "was not Mr. Peltz," to avoid a proxy contest. Peltz declines any settlement that does not involve adding a Trian executive to the board.

Feb.5, 2015 — DuPont announces that incumbent directors Crawford and Brown will leave the board effective immediately, and serve first as consultants to and then, on completion of the spin-out, as director of Chemours. Breen and Gallogly are appointed as their replacements. In a public statement, Trian commends the selection of Breen and Gallogly, but asserts that the board still needs to add a Trian executive.

Feb. 23, 2015 — Trian requests that DuPont allow the use of a universal proxy card for the election of directors at the 2015 annual meeting, as this would allow shareholders "to choose the best directors from among all candidates (rather than choosing between either the Trian slate or the company slate), and would reflect best-in-class corporate governance by providing stockholders

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with maximum freedom of choice." A week later the company publicly rejects the request.

Mar. 11, 2015	After receiving a call from one of DuPont's largest shareholders "encouraging Trian and the company to try and resolve the proxy contest," Trian proposes a settlement under which Peltz and another Trian nominee would be appointed to the DuPont board, the two remaining Trian nominees would be added to the Chemours board, and certain changes would be made to the proposed corporate governance provisions at Chemours, including elimination of the staggered board and certain supermajority voting provisions.
Mar. 13, 2015	DuPont counters, according to its proxy statement, with an offer to add Trian nominee Myers. No Trian response is reported. The Trian proxy statement notes that on this date it received a letter stating that DuPont had rejected Trian's settlement offer, but does not mention either a counteroffer from DuPont or any subsequent response from Trian.
Mar. 17, 2015	Record Date.
Mar. 23, 2015	DuPont and Trian each file their definitive proxy statements.
May 13, 2015	Annual Meeting

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Dissident Critique

The dissidents contend that while shares have risen approximately 45% since Trian's initial investment, none of that performance is driven by fundamentals: Earnings per Share ($4.01 in 2014 and $4.00-$4.20 guidance for 2015) remains below the 2011 achievement of $4.32.

DuPont's EPS decline of 7% since 2011, in fact, ranks in the bottom quartile of its diversified industrials and chemicals peers as well as the company's own proxy peers, and well below the medians of 24% and 18%, respectively. Over longer periods the tale is no better: for the latest industry cycle (2007-2014), DuPont—still in the bottom quartile—grew EPS 30% versus a median of 55% among diversified industrial and chemical companies. Over the past decade, DuPont's 53% growth rate was still mired in the bottom quartile, and well below the 141% median of those peers. Over the past two decades, DuPont ranks last in the category, at EPS growth of 100% versus a peer median of 434%.

This EPS performance, the dissidents note, is the result of the "Higher Growth, Higher Value" strategy the company has been pursuing for years, and to which it has remained committed even as the strategy "has only led to declines." Since 1998 the company has "continually restructured its portfolio of businesses to no avail," divesting businesses which delivered more than $34 billion in revenue, acquiring others with more than $11 billion, on a revenue base which is currently only $35 billion.

Over that same period—from the announcement of the separation of Conoco through the close of trading on Sept. 16, 2014, one day prior to Trian first making its ideas for the company public—the company's TSR of 55% trails the S&P 500 Index, at 144%, by 89 percentage points, and the S&P Chemicals Index, at 257%, by 202 percentage points. The company's recent share price performance, the dissidents conclude, "reflects the market's desire for Trian's involvement": while it delivered TSR of 266% for the calendar years 2009-2014, "116 [percentage points] of that return resulted from share price appreciation after Trian invested."

The root cause of the company's relative underperformance, on both EPS growth and share price appreciation, is its failure to deliver organic growth at either its own target levels or at peer performance levels. Over the period from 2008-2014—which captures the tenure of the current CEO—the Compound Average Growth Rate (CAGR) of revenue in the company's Crop Protection business (approximately 1/3 of its Agriculture segment) was 5.7%, the dissidents calculate, well below the 8.1% achieved by peers or the 8-10% targets DuPont set for the segment in 2011 and 2013.

That underperformance is relatively good, however, by contrast with organic revenue growth rates in 5 other segments, which account for 61% of the company's revenue base.

Performance Chemicals grew at a CAGR of 1.3% over the same period, well below the 3.4% achieved by peers or the 3-5% target the company set in 2013—and strikingly below the 6-8% 2011 target. Performance Materials grew at a CAGR of 1.9%, versus peers at 4.5% and a 2013 target of 3-5% (also down from the 2011 target, which was 4-6%). Industrial Biosciences, at a 3.2% CAGR, was less than half of peers, at 6.6%, and well below 2013 target of 7-9% and 2011 target of 10-12%. Nutrition and Health, at 3.0% CAGR, underperformed peers at 4.2%, and 2013 and 2011 targets of 7-9%. Safety and Protection, whose peers grew at a CAGR of 3.2%, actually declined at a compound annual rate of (0.2)%—despite a 2013 target of 5-7% and a 2011 target of 8-10%.

The weak performance in revenue growth versus internal targets and peer performance, the dissidents underscore, was only further exacerbated by EBITDA margins which also trailed peers by between 3 and 14 percentage points, in 5 of 7 segments representing in aggregate 64% of revenue.

The way forward, the dissidents assert, is for the board to:

1. Reassess the corporate structure, without a pre-ordained vision of the optimal structure, to "determine whether management is capable of achieving best-in-class revenue growth and margins with the existing portfolio or whether there is a need to separate the portfolio."

   The open question for shareholders, the dissidents contend, is whether the company is too complex to be managed effectively. Approximately 44% of sales, for example, are in low-growth but volatile businesses: Performance Materials, Safety and Protection, and Electronics and Communications. Substantially all the aggregate earnings growth in these segments since 2007, the dissidents emphasize, has come from record-high ethylene spreads in the Performance Materials segment; excluding that effect, pre-tax Operating Income was flat, and margins expanded only ~58 basis

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points. The remaining 56% of revenue, by contrast, comes from one proven growth business—Agriculture, currently 40% of total corporate sales—and two "with potential"—Nutrition & Health, at 12% of total corporate sales, and Industrial Biosciences, at 4% of total corporate sales. Agriculture revenue has been growing at a 10% CAGR since 2007, even as margins have been continually improving. For the other two categories, however, organic revenue growth has been below target, and EBIT margins have been contracting since they were acquired in 2010.

2. Eliminate excess corporate costs and ensure productivity initiatives "hit the bottom line."

   The parable of the Coatings business , the dissidents believe, demonstrates that excess cost is a significant but unacknowledged problem. The business was sold to private equity buyers in 2012, who filed to take it public two years later—with proforma financials reporting 68% higher EBITDA in 2011 ($568 million versus $339 million) than the company itself had reported for that year. The difference, the dissidents conclude, could only have been $229 million in excess costs which did not deliver any incremental value to the business or shareholders (which is why the private equity firm could exclude them from its proforma). On an enterprise basis, the dissidents estimate, these excess costs add up to $2-4 billion. In "not running Coatings efficiently" and selling the business for cash rather than doing a tax-free spin, "DuPont transferred >$6 billion of shareholder wealth" to the private equity firm.

3. Assess capital allocation in organic investments, M&A, and balance sheet efficiency.

   The board's capital allocation decisions have produced an "uneconomic ROIC on 2/3rds of the revenue base," excluding Agriculture and Pharma, of just 5.0%, well below the company's 8.4% cost of capital. That poor return profile on non-Agriculture capex, R&D, and M&A investment is especially concerning "in light of the current headwinds in Agriculture markets," the dissidents point out. But even within the Agriculture business, "substantial" R&D of $5 billion over the past five years has yielded negative results: "no new biotech traits of significance discovered," a $1 billion jury verdict against the company for patent infringement, $1.2 billion in charges related to customer claims of damage from its herbicide Imprelis, and "paying competitors for science capabilities." Other M&A initiatives, like the Danisco acquisition, have resulted in "subtraction by addition," yielding average growth rates below target, and actual organic growth rates well below that. EBIT margins are down 33% from proforma targets with synergies, and 25% from proforma targets without synergies, since 2010.

4. Improve corporate governance by increasing transparency into business performance, alignment of compensation with performance, and "overall accountability for promised performance."

   The most revealing fact of the company's executive compensation program is that DuPont has rewarded management for failing to meet its targets. In 2014, for example, short-term compensation payout was nearly 90% of target, despite achieving adjusted EPS growth of just one-quarter of the long-term target. While acknowledging the "corporate performance" payout factor was 0%, the Compensation Committee gave individual performance ratings of 80-100%—declaring, paradoxically, "that the company is doing poorly operationally but management as individuals are doing great." This same poor grasp of accountability determined the proposed governance structure with which Chemours will be spun out: a staggered board, 80% supermajority vote requirements to amend bylaws and articles, no ability to act by written consent and a 25% threshold—originally 35%—to call special meetings.

Electing shareholder nominees to the board is necessary, the dissidents argue, to "eliminate management's rhetoric" and information advantage versus shareholders, manifested in such things as using changes in pension accounting "to obfuscate the truth that the company lowered margin targets," or reporting "NINE different EPS figures for 2011." Most critically, though, they are manifested in the facts that the company—despite guiding to 2015 results which are lower than those it posted four years ago—continues to dismiss the dissidents' ideas for unlocking shareholder value, and that the CEO, apparently voting with her feet, "has sold over half of her stock since Trian invested in 2013," including 23% when other investors responded to the release of Trian's white paper by bidding the stock up to a 15-year high.

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Management Response

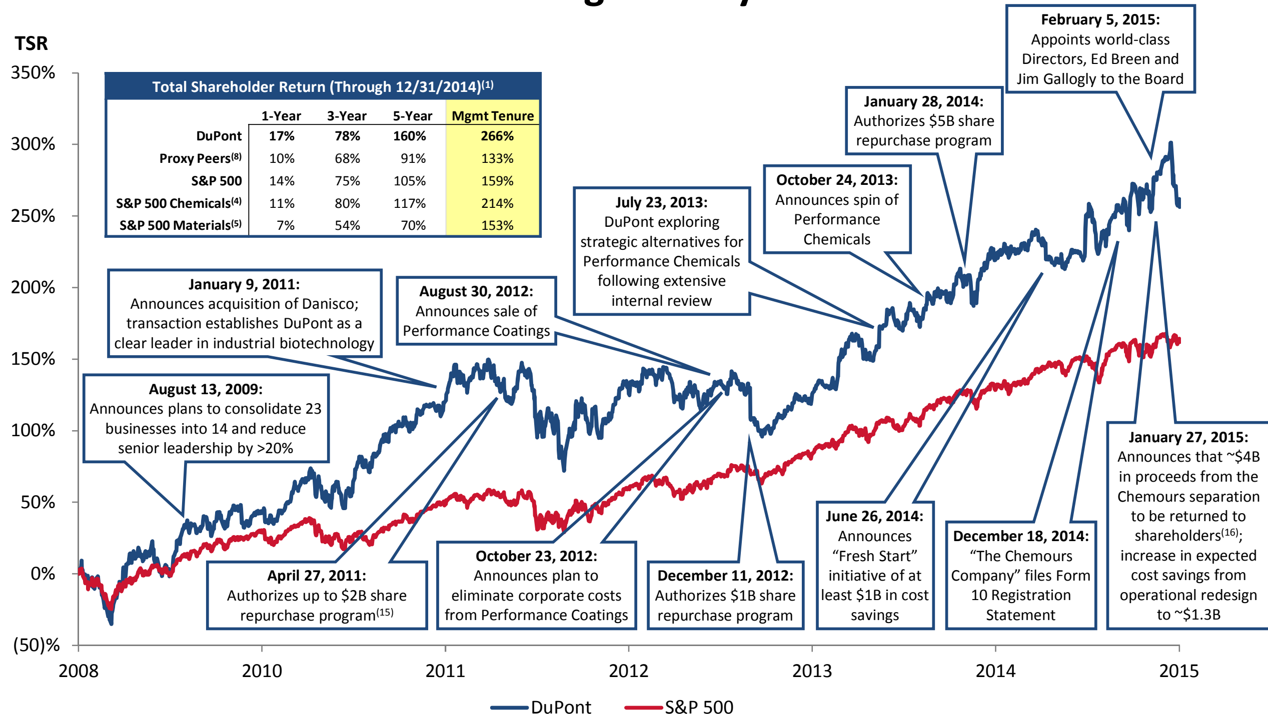
The board argues the “next generation DuPont” is well on its way to capturing significant and sustainable growth opportunities. Under the current management—CEO Kulhman took office in January 2009—the company produced 266% Total Shareholder Return through 2014, significantly outperforming its self-selected proxy peers as well as the S&P500 before and after the dissidents’ investment. Ongoing businesses generated 6% compound annual sales growth, and a 740 basis point increase in segment-adjusted operating margins, delivering 19% compound annual growth in adjusted operating EPS since 2008. At the same time it has pursued a “Higher Growth, Higher Value” strategy to transform its business portfolio, focusing on “where science and engineering capabilities can deliver the greatest value, and leveraging the company’s innovation platform, global brand, customer relationships and developing market infrastructure to identify significant global opportunities for growth.”

The strategy, the board asserts, is working. The company emerged from the global financial crisis a stronger company with a “laser focus on cost reduction and increased efficiency,” improving its operational performance and launching disciplined growth initiatives which allowed it to return $14 billion to shareholders in dividends and repurchases over the subsequent six years (on average, 5.2% of market cap each year, higher than the 4.3% rate for the S&P500). That transformation, the board contends, has been recognized by the market: over the full six years through the end of 2014—as it began consolidating 23 businesses into 14, acquired Danisco to become “a clear leader in industrial biotechnology,” sold the Performance Coatings business, repurchased $4 billion in shares with the proceeds, announced the spin of its Performance Chemicals unit (to be completed later this year)—the company’s TSR increased at double the market-cap-weighted performance of its proxy peers, and outpaced the S&P500 by 107 percentage points.

The income statement also showed significant improvement over the period. Total revenue increased at a 6% CAGR from 2008 through 2014, and operating margin (adjusted to include corporate allocation) grew 740 basis points, from 9.5% to 16.9%, over the same period. Each of the five continuing segments which existed in 2008 has posted an improvement in adjusted EBITDA margin, ranging from 380 basis points in Electronics & Communications (8% of 2014 revenue) to 1,400 basis points in Performance Materials (22% of 2014 revenue). Even the largest segment, Agriculture, increased by 410 basis points. The new segment—Industrial Biosciences, which was largely created through the Danisco acquisition in 2011—posts a 22.0% EBITDA margin. As a result, adjusted operating EPS from ongoing business (excluding the still-to-be-spun Performance Chemicals unit and pharma) grew at a 19% CAGR from 2008-2014.

The Fresh Start initiative, launched in June 2014, will shave at least $1.3 billion

Transformation Has Been Recognized By The Market



Total Shareholder Return (Through 12/31/2014)[1]

	1-Year	3-Year	5-Year	Mgmt Tenure
DuPont	17%	78%	160%	266%
Proxy Peers[8]	10%	68%	91%	133%
S&P 500	14%	75%	105%	159%
S&P 500 Chemicals[4]	11%	80%	117%	214%
S&P 500 Materials[5]	7%	54%	70%	153%

Source: DuPont Investor Presentation

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in annual costs by realigning corporate functions around the business units, to serve the business units at the lowest cost; reducing complexity, which in turn will help clarify accountability and the improve the effectiveness of performance management programs; standardizing processes; and improving organizational agility with spans, layers and levels better than benchmarks. The initiative will also pursue outsourcing of non-strategic initiatives. Nearly a third of this cost savings—$375 million—will come from costs eliminated through the spin of the Performance Chemicals business; another $250 million is expected from the redesign, simplification, and standardization of company-wide processes.

The board projects its strategic plan—focus on Higher Growth, Higher Value opportunities in the three strategic areas of Agriculture & Nutrition, Bio-Based Industrials, and Advanced Materials—will raise revenue in these three key areas from $28.5 in 2014 to $40-45 billion in 2020. The largest of the three, Agriculture & Nutrition, is projected to increase $5-9 billion (35-62%), significantly faster than its end market growth of 5-8% per year and from 2-3 times the growth in GDP, through higher agriculture productivity, addressing food safety and security concerns, and growth in the health and wellness markets. Advanced Materials, though a smaller global market, is projected to increase by $3.6 to $7.6 billion (29%-61%) over that period, also significantly faster than its end market growth of 3-6% and about 1.5 times GDP. The growth through innovation continues a tradition at the company: in 2013 28% of revenue, or more than $10 billion, came from products introduced in the previous four years—$5.8 billion in Agriculture & Nutrition, $3.9 billion in Advanced Materials, and $0.4 billion in Bio-Based Industrials. In 2014 the number dipped slightly to $9 billion.

The board itself, the company asserts, is "world-class" with the right mix of skills and experience and the ongoing self-assessment to ensure it remains that way. Ten of 12 directors are current or former C-suite executives of major public companies—three were recently named "Best Performing CEO's in the World" by Harvard Business Review—and two others include the former head of the US EPA, and one of the "100 Most Influential Chemical Engineers of the Modern Era." Half of the board is new within the past five years, including adding in February of this year two well-regarded former CEOs, who oversaw the turnarounds of Tyco International and LyondellBasell. Its corporate governance regime "ensures board accountability" through such best practices as an annually-elected board with a majority vote standard, the ability of shareholders to call special meetings and act by written consent, and simple majority vote standards for amendment of the governing documents. Directors are subject to a mandatory retirement age of 72, but the board also completes an annual performance appraisal process, and limits the number of other boards on which directors may sit (currently no DuPont director sits on more than 2 other public company boards). Compensation programs closely align pay and performance, with 89% of CEO pay, and 80% of NEO pay, in at-risk forms of compensation. Executive compensation is below the median of the company's self-identified proxy peers, and incentive compensation is capped, with clawback provisions. Shareholder support for Say-on-Pay proposals has never dipped below 94%; in 2014, support was 97%.

The dissidents' objective, the board contends, is a breakup of the company which "would result in significant destruction of shareholder value." The upfront impact, the company estimates, could be as much as $4 billion in debt breakage, separation charges, tax implications, and other potential one-time funding needs. Ongoing incremental costs could be as much as $1 billion per year through duplicative overhead costs and other incremental expenses as well as reduced tax planning efficiency. More importantly, it could disrupt or destroy the growth potential of its innovation platform, eliminating the leverage effect from multi-disciplinary science background and cross-platform R&D programs. It also would introduce significant risk by adding 1.5 turns of leverage, increasing Net Debt/EBITDA to 3.5x and potentially adversely affecting the credit rating. This, in turn, could also put at risk the company's ability to fund R&D and capital expenditures, reduce its ability to withstand periods of economic viability, and limit its flexibility to pursue important strategic opportunities.

Though it has offered to settle the contest by adding Trian nominee Myers, the company objects to adding Trian CEO Peltz on the belief the fund will "establish a 'shadow management team' committed to advancing its agenda." Trian's "unproductive negotiation approach based on demands, ultimatums and threats," the board asserts, "is inconsistent with the Dupont board's successful culture of constructively challenging ideas." The other nominees, it adds, have "no experience leading a science-based business" nor executive experience which is not already well-represented among the incumbent directors.

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Analytic Framework

In analyzing proxy contests, ISS focuses on two central questions:

1. Have the dissidents made a compelling case that change is warranted?
2. If so, which nominees are most likely to drive that change?

When the dissidents are seeking a minority position on the board, ISS does not require a detailed plan of action, nor that the dissidents prove their plan is preferable to the incumbent plan. Instead, ISS will require that dissidents prove that change is preferable to the status quo and that the dissident slate will add value to board deliberations of the issues at hand.

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1. Is Change Warranted?

Total Shareholder Return

Measuring the company's TSR over time is not difficult—but understanding whether that TSR outperformed or underperformed its potential is.

The problem begins with the fact that DuPont is a conglomerate of what can seem loosely-related businesses selling into entirely different end markets. Almost by definition, such a conglomerate has no true peer (since no other conglomerate has the same portfolio of businesses in approximately the same mix). The problem is compounded, though, by the fact the company has been significantly reconfiguring its portfolio of businesses as well, changing even the company's own business profile over any meaningful measurement period. To illustrate: DuPont currently has five ongoing business segments—Agriculture, Nutrition & Health, Electonics & Communications, Performance Materals, and Safety & Protection—which it has operated since at least 2007; it added a sixth, Industrial Biosciences, through its 2011 acquisition of Danisco; it is spinning out a seventh, Performance Chemicals (20% of 2008 revenue), later this year, and sold an eighth, Performance Coatings (14% of 2008 revenue) in 2012 . Calculating what its performance could or should have been—on a TSR basis—may be impossible, given the lack of any meaningful benchmark or close peer over a sustained period.

Mindful that the comparison is of less value, given the imprecision of the matchups—but also of the fact that TSR is a standard performance evaluation which both sides have used in this contest—ISS analyzed the company's TSR over our standard three– and five-year periods, and compared that performance to the S&P500 index (which the company uses) as well as a portfolio of industrial/chemical conglomerates, as the company and the dissident have each done. Where there was overlap between the "peer" groups selected by the dissidents and the company, we have included those peers: 3M Co., Dow Chemical, Emerson Electric, Honeywell, Ingersoll-Rand, and United Technologies. We selected another 9 peers—BASF, Celanese, Danaher, Dover, Eastman Chemical, Eaton, FMC Corp, General Electric, and Huntsman—which appeared on only one of the two lists, but whose business mixes appeared to have meaningful competitive overlap with DuPont's.

3-Year TSR	Through Unaff. Date 9/16/2014	Extended Through 4/20/2015
DuPont	56.3%	75.2%
Peer Median	97.0%	94.2%
S&P 500 Index	77.1%	88.3%
DuPont B/(W)		
Peer Median	(40.7)	(19.0)
S&P 500 Index	(20.8)	(13.1)

Source: Bloomberg Financial L.P. Peers include 3M Co, BASF, Celanese Corp-Series A, Danaher Corp, Dover Corp, Dow Chemical Co, Eastman Chemical Co, Eaton Corp Plc, Emerson Electric Co, FMC Corp, General Electric Co, Honeywell International Inc, Huntsman Corp, Ingersoll-Rand Plc, United Technologies Corp.

5-Year TSR	Through Unaff. Date 9/16/2014	Extended Through 4/20/2015
DuPont	132.2%	160.2%
Peer Median	136.5%	152.9%
S&P 500 Index	107.8%	120.9%
DuPont B/(W)		
Peer Median	(4.3)	7.3
S&P 500 Index	24.4	39.4

Source: Bloomberg Financial L.P. Peers include 3M Co, BASF, Celanese Corp-Series A, Danaher Corp, Dover Corp, Dow Chemical Co, Eastman Chemical Co, Eaton Corp Plc, Emerson Electric Co, FMC Corp, General Electric Co, Honeywell International Inc, Huntsman Corp, Ingersoll-Rand Plc, United Technologies Corp.

Sept. 16, 2014 was the last full day of trading prior to the dissident's release of a white paper detailing their strategies to unlock shareholder value. This was also the dissident's first public acknowledgement on their involvement at the company, though media reports had begun circulating more than 18 months previously. Measured through this unaffected date, the company's TSR was 56.3%, 40.7 percentage points below the median of the peer group and 20.8 percentage points below the S&P500 Index.

Extended through April 20, 2015—a period affected not only by investors' awareness of the dissidents' involvement, but also several earnings announcements, the announcement of the Fresh Start initiative, and significant share buybacks—the performance gap had narrowed meaningfully but remained negative, at 19.0 and 13.1 percentage points underperformance of peer median and the index, respectively.

Over the five-year period ending on Sept. 16, 2014, the company's TSR of 132.2% marginally underperformed the median of peers by 4.3 percentage points, and meaningfully outperformed the S&P500 index by 24.4 percentage points. Extended through April 20, 2015, that relative performance improved to a 7.3

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percentage point outperformance of peer median, and a 39.4 percentage point outperformance of the S&P 500 index.

Shareholders should note, however, that the starting point for this 5-year measurement period was in September 2009, when the financial markets generally were still rebounding from the depths of the financial crisis—and thus the measurement may be skewed by a rising tide which lifted all boats, if unevenly. In contrast, by the starting point for the 3-year measurement period—September of 2011—the markets had returned to a more normalized basis. TSR measurements beginning in that period may be more likely to reflect the operating and financial performance of individual firms, without that performance being overwhelmed by the large macroeconomic bounceback from the financial crisis .

It is unclear, however, whether the dissident's public release of their white paper truly represents an "unaffected date" before which no TSR performance could be attributed to the dissidents' presence in the stock. The dissidents have pointed out that DuPont shares responded to the release of the white paper with their greatest one-day outperformance of the S&P500 Index since the CEO took office—surging 5.2% that day, versus a 0.1% change in the S&P500 index. 14 months earlier, however, when media reports first began circulating of Trian's investment in DuPont, shares also surged 5.3% in one day, versus a 0.3% increase in the S&P500 Index (which makes it the second largest outperformance of the S&P500 Index under the current CEO's tenure).

	Three-Year TSR		Five-Year TSR	
	Reports of Trian's investment	White Paper Published	Reports of Trian's investment	White Paper Published
	7/16/2013	9/16/2014	7/16/2013	9/16/2014
DuPont	67.2%	56.3%	51.4%	132.2%
Peer Median	81.6%	97.0%	75.8%	136.5%
S&P 500 Index	66.9%	77.1%	48.6%	107.8%
DuPont B/(W)				
Peer Median	(14.4)	(40.7)	(24.4)	(4.3)
S&P 500 Index	0.4	(20.8)	2.8	24.4

Source: Bloomberg Financial L.P. Peers include 3M Co, BASF, Celanese Corp-Series A, Danaher Corp, Dover Corp, Dow Chemical Co, Eastman Chemical Co, Eaton Corp Plc, Emerson Electric Co, FMC Corp, General Electric Co, Honeywell International Inc, Huntsman Corp, Ingersoll-Rand Plc, United Technologies Corp.

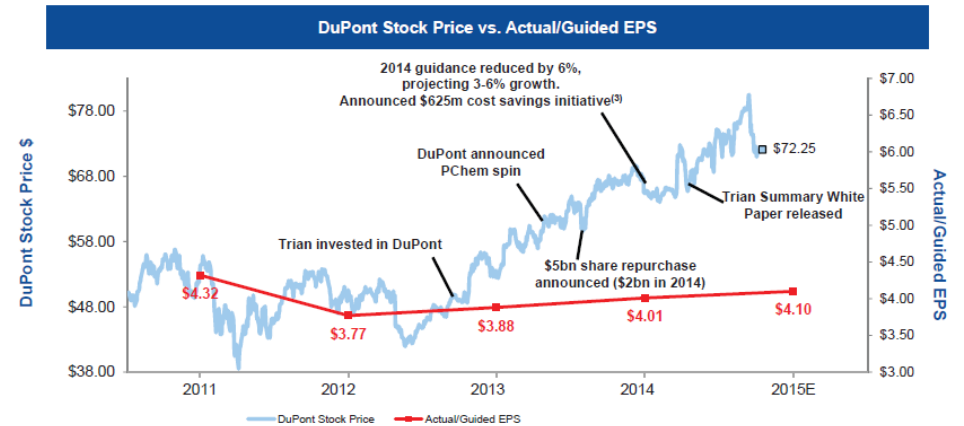
One could argue the last full day of trading prior to those media reports truly represents the "unaffected date." Measured over the three years preceding that date, the company's TSR of 67.2% underperformed the median of peers by 14.4 percentage points, and was relatively in line with the S&P500 index. Over the five-year period preceding that date—a measurement which begins in July 2008, just at the brink of the financial crisis' effect on the broader markets—the company's TSR of 51.4% was 24.4 percentage points worse than peer median, and marginally better than the S&P500 Index by 2.8 percentage points.

Operating Performance

The heart of the dissident critique, however, is not TSR underperformance but the failure, since the world "normalized" from the 2008 financial crisis, to keep pace with the margin performance of peers, much less meet the company's own publicly-identified revenue growth targets, in most of the business segments which continue to make up its core businesses. The company's share price appreciation is not driven by fundamentals, the dissidents assert: share prices have ticked up, perhaps in part due to the dissident's presence in the

Recent Stock Price Strength Not Driven By Fundamentals

- **DuPont's stock price has risen ~45% since Trian's initial investment, yet EPS is below 2011 levels**
  - While DuPont boasts about its total return of 266% from 12/31/08 to 12/31/14, 116% of that return resulted from share price appreciation after Trian invested(1)
- **We believe DuPont's recent share price performance reflects the market's desire for Trian's involvement(2)**



Source: Capital IQ, DuPont Press Releases and transcripts of earnings release conference calls.
(1) Source: DuPont presentation filed 1/9/15. 116% accounts for impact of share price appreciation from March 15, 2013 (date of Trian's initial investment) to December 31, 2014.
(2) While Trian believes that such share price appreciation is attributable to Trian's involvement as a DuPont stockholder, there is no objective method to confirm what portion of such appreciation was attributable to Trian's involvement and what portion may have been attributable to other factors.
(3) Represents announcement of Fresh Start initiative, a $1bn cost saving plan, at the time, that includes $375m of costs transferred to Performance Chemicals. DuPont increased total program size to $1.3bn on 1/27/2015.
DuPont Can Be Great | 11

Source: Dissident investor presentation

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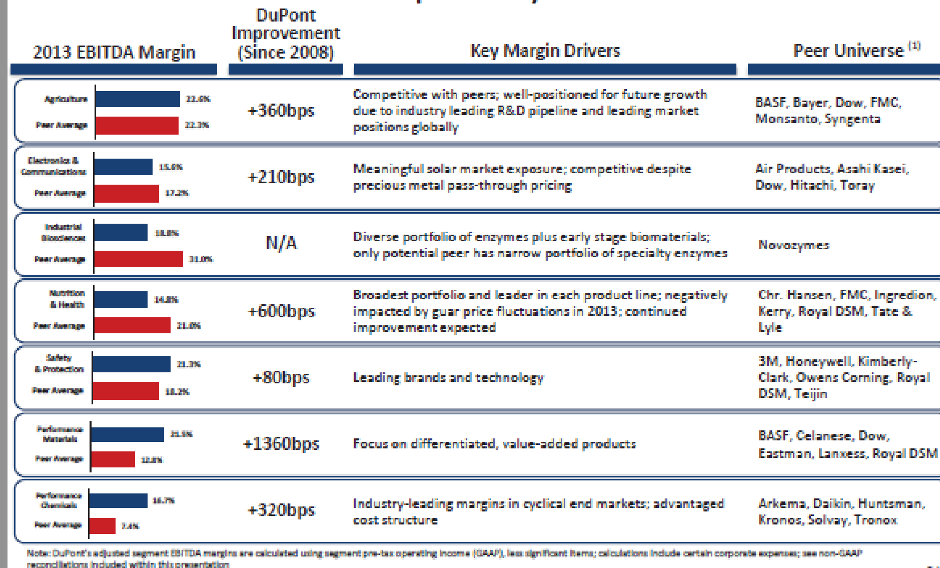
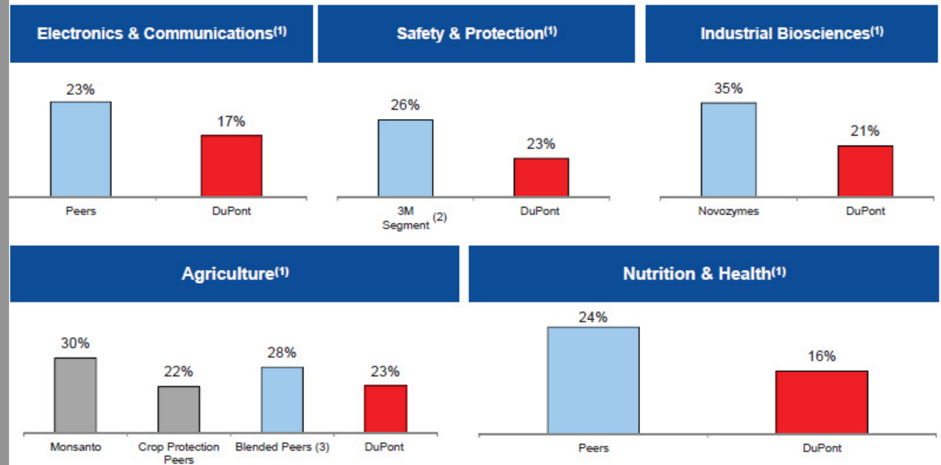


Source: 2014 DuPont Investor Presentation



Source: 2014 DuPont Investor Presentation

stock, even as financial performance has been stagnant. This is most strikingly evident in comparing share price performance to EPS from 2011 through the present: while share prices have increased, EPS —even including 2015 guidance—remains below 2011 levels.

Margins

The company contends it has substantially strengthened its portfolio businesses, including expanding EBITDA margins by between 210 and 1,360 basis points between 2008 and 2013, and that as a result these portfolio businesses are "competitively well-positioned." From 2008 through year-end 2014, it notes, segment adjusted operating margin expanded by 740 basis points.

Continuing Businesses: Segment EBITDA Margin (adj) [a]

Continuing Businesses	2007	LTM (1Q15)	Annual Change
Agriculture	20.4 %	22.9 %	35 bps
Performance Chemicals	20.0 %	17.6 %	(35) bps
Performance Materials ex Ethylene [c]	13.8 %	17.6 %	52 bps
Safety & Protection	31.0 %	25.7 %	(74) bps
Electronics & Communications	18.6 %	19.8 %	17 bps
Unallocated Corp/Other	(2.2)%	(2.5)%	(5) bps
Blended	17.0 %	17.5 %	8 bps

Source: DuPont SEC filings, Bloomberg, and Nomura model.

[a] Adjusted EBITDA Margins by Segment as Reported is Adjusted Pre-Tax Operating Income (as reported) plus Depreciation and Amortization divided by segment sales. For Other and Corporate, listed as a percentage of total net sales.

Source: Dissident filings

The dissidents counter that some margin expansion from ground zero of the financial crisis—fiscal 2008—was inevitable: the real issue is that the company has failed to deliver peer-level margins, relying instead on the economic recovery to do all the work.

2008 may seem an appropriate year against which to benchmark a CEO who took office in January 2009. It was also an enormously aberrant

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year on nearly every significant financial metric for many companies, given the global effect of the financial crisis which played out that year and into 2009. That there has been a recovery under the current CEO is better than the alternative—but going back one year prior to a black swan event to establish the benchmark for comparison seems more prudent, since it better controls for the effects of the financial crisis.

That perspective lays bare compelling evidence that the dissidents have a point. Excluding the current Health & Nutrition business, which the company did not own in 2008, and the effect of a commodity boom in ethylene, which was beyond the control of management, DuPont's aggregate EBITDA margin for its continuing businesses increased by only half a percentage point over 7 years (measured as the trailing twelve months through the just-reported Q1 2015), or about 8 basis points per year.

That corporate performance includes some standout segment performance: even excluding the ethylene commodity boom, Performance Materials increased its EBITDA margin by nearly 4 percentage points over the 7 year period, and Agriculture— the company's largest segment by revenue—increased EBITDA margin by 2.5 percentage points, or about 35 basis points per year. But the positive performance in three segments masks deteriorating performance in the other two: Performance Chemicals lost 2.4 percentage points of EBITDA margin over the 7 years, or 35 basis points per year, while Safety & Protection lost 5.3 percentage points of EBITDA margin, or about 74 basis points per year.

2014 DuPont Investor Presentation		Adj. EBITDA Margin
Agriculture		22.6%
Peer Average		22.3%
DuPont B/(W) Peers		30 bps
Peers @ DuPont Sales Mix	**Mix**	
Seed	68%	28.1%
Crop Protection	32%	22.0%
Weighted Average		26.2%
DuPont B/(W) Wtd Peers		(357) bps

Source: 2014 DuPont Investor Presentation; Reuters Knowledge; EBITDA adjusted for corporate allocations

If the net effect on continuing core businesses, after controlling for the effect of the financial crisis of 2008, was to add a bare half a point to the aggregate EBITDA margin of those businesses, it seems prudent to look more closely at the question of how well those businesses are positioned against competitors. As one prismatic example for which all the relevant data is publicly available, we took Agriculture—the largest of the segments at 40% of 2014 revenues, but also one of the stronger segments in terms of margin expansion since 2008—as a test case.

In a Fall 2014 investor presentation, the company pointed out that the segment's adjusted EBITDA margin (including corporate allocations) was 22.6%, 30 basis points higher than the average of the six segment peers. (The comparison uses results for the comparable segments of each peer, as many of these companies also have other businesses beyond the Agriculture segment).

Revenue for DuPont's Agriculture business in 2014 came from both seeds (70%) and Agricultural Chemicals (30%). In calculating the peer EBITDA margin for comparison, however, the company notes that it weighted each of the six peers equally—despite the facts that only one of them, Monsanto, has a meaningful seed business (Monsanto and DuPont are #1 and #2 in seeds), and Monsanto's seed business has a meaningfully higher EBITDA margin, at 28%, than the Ag Chemicals businesses in the analysis. Rather than using a simple mean average, calculating a weighted average of the Seed and Ag Chemicals competitor EBITDA margins, at DuPont's revenue mix, seems far more appropriate for evaluating the competitiveness of DuPont's margin in this segment.

It is also far more informative. Against a weighted average competitor EBITDA margin of 26.2%, DuPont's Agriculture segment EBITDA margin in its largest segment is not 30 basis points better but 357 basis points—nearly four percentage points—worse.

Revenue

Even with a relatively flat aggregate margin, however, the company should have been able to beat its 2011 EPS number during the succeeding three years. One central reason it has not, the dissidents emphasize, is that it has failed to deliver organic revenue growth which matches peers, much less meets its own targets. Within the Agriculture segment for example, Ag Chemicals (which the dissidents refer to as Crop) grew total revenue at a CAGR of 5.7% from 2008 through 2014. Peers, however, grew their revenue at an 8.1% CAGR, or nearly half again as fast. The growth rate of DuPont's Ag Chemicals business was also

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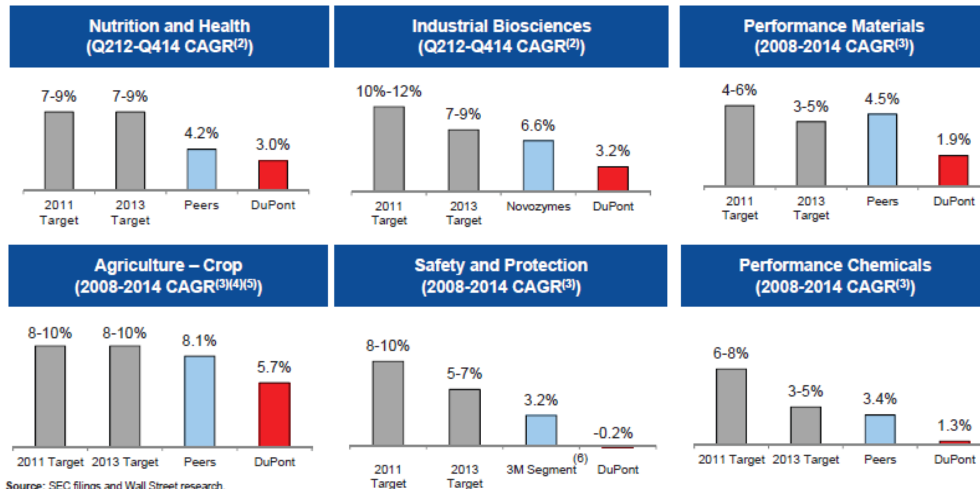
Why DuPont Underperformed: Failure To Deliver Target Or Peer Level Organic Revenue Growth

- **DuPont's organic revenue growth has trailed peers in 5 of 7 segments (~71% of revenues)(1) and has rarely met its own goals**



Source: Dissident Investor Presentation

barely half the 8-10% target the company set for itself in 2011, and reaffirmed in 2013. In the Safety & Protection segment, which represented 12% of DuPont's sales in 2014, revenue actually declined at a compound rate of (0.2)% from 2008 to 2014, far below the long-term target of 8-10% the company set in 2011, or even the revised target of 5-7% it set in 2013. Its most comparable peer, 3M, grew revenue at a compound annual rate of 3.2% over the period. Performance Materials, 22% of 2014 sales, also grew at an anemic CAGR of just 1.9% from 2008 through 2014, less than half the 4.5% CAGR of peers (which was itself near the high end of the 3-5% revised target DuPont set for its own business in 2013).

This is all the more disconcerting given the board's rallying cry in this contest that the dissidents, if elected, will cut the R&D spending that drives a key competitive advantage. In 2013 and 2014, new products (those launched within the previous four years) from DuPont's innovation platform accounted for $10 billion (28%) and $9 billion (32%) of total sales, respectively (the 2014 calculation excludes data for the Performance Chemicals segment). In 2013, the most recent year for which such information has been released, the company applied for more than 1,700 patents, received more than 1,000, and brought more than 1,700 new products to market.

DuPont Innovation Metrics

	2014	2013
Total US patent applications **	*Not*	1,755
US patents granted	*Yet*	1,041
New products commercialized	*Disclosed*	1,753
Sales from new products* (bils)*	$ 9	$ 10
% sales from new products	32% ***	28%
Total R&D expense (bils)	$ 2	$ 2
R&D as % of sales	6%	6%

**sales from new products launched within the past four years*
***includes legacy Danisco and excludes Performance Coatings*
****2014 calculation excludes Performance Chemicals segment*

Source: DuPont 2013 Data Book, financials, investor presentations

The dissidents, for their part, assert they have no intention of cutting R&D, but would extend the board's focus beyond merely investing in R&D to the matter of return on that investment. The question is not whether the company should be doing R&D, they contend, but whether it is appropriately managing the commercialization of that R&D.

Product by product, it is impossible for shareholders outside the boardroom to measure what return they are getting from the 1,752 new products commercialized in 2013. One key question in that analysis, however, would be whether the R&D spending is going into entirely new products, or simply cannibalizing existing revenue by delivering "new and improved" products. The company last provided such information in its 2007 data book, when about two-thirds of new products were replacing existing products.

Revenue trends for the four years whose product launches provided the $9 billion in "new product" revenue for fiscal 2014 suggests the R&D effort is providing no net new growth in aggregate revenue. In the six largest segments, which comprised more than 96% of total corporate revenue over these four years (including Performance Chemicals, which had not yet been spun out, but excluding Industrial Biosciences, which the company did not own for the full period), 2014 revenue was lower than either of the two preceding years, and a mere 80 basis points higher than revenue in the first year of the period.

Not all of this is cannibalization—some segments did grow revenue over the period, which may be evidence of truly new products rather than mere replacement. In aggregate, however, the "innovation platform" failed to provide net revenue growth across the six large segments. Cannibalization of revenue in and of itself is not necessarily a bad strategy, moreover: to use a less gruesome

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Are New Products Driving Growth?

	2014	2013	2012	2011
Agriculture	$ 11,312	$ 11,750	$ 10,431	$ 9,167
Performance Chemicals	6,677	6,899	7,435	8,051
Performance Materials	6,199	6,541	6,538	6,924
Safety & Protection	3,900	3,888	3,836	3,947
Electronics & Communications	2,405	2,564	2,718	3,192
Nutrition & Health	3,529	3,473	3,422	2,460
	$ 34,022	$ 35,115	$ 34,380	$ 33,741
% of Total DuPont Revenue	*96 %*	*97 %*	*97 %*	*98 %*
Year-over-year Incr./(Decr.)	$ (1,093)	$ 735	$ 639	$ 6,844
2014 Revenue B/(W):		(3.1)%	(1.0)%	0.8 %

Source: Reuters Knowledge

metaphor, it is far better to eat one's own lunch than to have a competitor eat your lunch. But cannibalizing one's own revenue, or even just making up in one segment for what is being lost in another, is at best a holding strategy, not a growth strategy.

Cost

The dissidents assert the company carries significant excess corporate costs of as much as $2-4 billion, which—considered in the context of $5.6 billion in EBITDA in the most recent fiscal year—can begin to seem like real money.

The company's response appears to be that "DuPont does not even have $4 billion in total corporate costs—functional overhead, including corporate costs, was approximately $2.8 billion in 2014." Through the Fresh Start initiative it launched in 2014, moreover, the company has already targeted annual ongoing savings of $1.3 billion "and is committed to continuing the evaluation of additional savings opportunities."

This defense may sound like a backhanded admission that there is in fact too much unproductive cost, and the only material difference between the board's and the dissidents' views is the size of the actual opportunity. That perception is oversimplified: the largest identified chunk of "cost savings" targeted by the board's $1.3 billion plan is the $375 million in operating expense for the Performance Chemicals business—savings the company will "realize" simply by spinning the Performance Chemicals business later this year.

The alleged $2-4 billion in excess "corporate costs" may, in fact, not be "corporate costs" as the income statement defines them—but the hard evidence from the sale of the Coatings business strongly suggests there are unnecessary and unproductive costs in the organization, and that they are significant.

DuPont reported total segment EBITDA for the Coatings business of $339 million in 2011, the last full fiscal year before it was sold to a private equity firm. When the PE firm filed an S-1 two years later, as part of the process for taking the business (now rechristened Axalta) public, it was required to report proforma 2011 financials from the perspective of the standalone business—including all the expenses necessary to run the business on a standalone basis, but without any corporate allocation for which it perceived no incremental benefit. The Axalta S-1 reported 2011 EBITDA, based on the same historical revenue number but net of corporate costs its owners found unnecessary, of $568 million.

The $229 million difference between what DuPont reported, including allocated and unallocated corporate costs, and the EBITDA Axalta reported it would have earned by paying only the expenses required to run the business well, is evidence, the dissidents contend, of rampant excess costs in the DuPont corporate structure. Extrapolating based on the percentage of segment sales or EBITDA which that $229 million represents, the dissidents arrive at a total DuPont cost problem of $1.9-3.7 billion. (In response to the board's criticisms that the extrapolation is based on incorrect assumptions, the dissidents calculated the figure based on employees—as indicated by the company's response—and arrived at a number of $1.7 billion).

Does Axalta Demonstrate Excess Corporate Costs?

As Reported by:	2011 Adj. EBITDA (Mils)	
DuPont	$ 339	Audited Financial Statements
Axalta	568	S-1 Proforma Financials
Excess Costs	$ (229)	

Based on % of Coatings Segment:	Implied Total Excess Cost (Mils)
Sales	$ (1,869)
EBITDA	$ (3,658)
Employees	$ (1,706)

Source: Dissident investor presentation

Strangely, for a company which dismisses the argument that there is excessive cost in

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the corporate structure, DuPont's Fresh Start initiative—or at least the part not focused on counting a spinoff as a cost reduction—appears to be taking up an analytic framework similar to the one that allowed the PE buyer to wring substantial excess cost out of the Coatings business. These include reducing complexity, clarifying accountability, and improving organizational agility with spans, layers and levels better than benchmarks.

The PE team may have been willing to go further than the DuPont board believes necessary. At Axalta, the S-1 reports, operational improvements included replacing 12 of the top 17 executives, and 69 of the top 140 managers. The standalone company also looked beyond mere cost, to things like eliminating low-margin customers, improving its customer pricing policy, expanding into high growth regions like China, and aggressively pursuing lost market share in certain segments. In aggregate, these actions expanded the EBITDA margin from 11% in 2011, when it was a segment within DuPont, to 20% in 2014 as a standalone business .

Restructure?

Arguably the biggest question raised in this entire proxy contest—should DuPont be broken up?—turns out, after analysis of the numerous other aspects of the dissident critique, to be the easiest to answer:

We don't know, and neither does anyone else outside the DuPont boardroom.

This is not a ringing endorsement of the board: what it highlights is a failure to communicate fully and credibly with shareholders. What the dissidents have based their campaign on is the point, repeatedly demonstrated in the company's soliciting materials, that shareholders need both far more transparency about business performance and enhanced board accountability for promised performance. This comes through in everything from the company's representation of EBITDA margins as "competitive" when (assessed against an appropriately-calculated average peer margin) they are significantly uncompetitive, to its silence on the growing disconnect between an "innovation platform" which drives growth and the multi-year stagnation of total revenue, to its use of a narrow accounting definition of "corporate costs" to blithely dismiss concerns (grounded in straightforward SEC filings) about significant excess costs in the corporation.

Segment EBITDA margins will not tell you whether the company should remain intact or be broken up. Neither will understanding whether the company has achieved or badly missed its revenue targets, nor the IPO filings of a recently-divested business which appear to demonstrate, in their stark contrast to the company's own financials reports when it owned the business, the extent of the non-productive cost issue.

What all those things will tell you, however, is how much confidence you should have in a management team and board which seem unable to address the hard truths these things reveal about the present and ongoing opportunity to create significant value just by managing the business more accountably, long before the question of whether the current structure is optimal becomes ripe.

The maddening thing about that reality is that there are reasonable-sounding explanations for why it might make more sense to keep the company unified. Leveraging innovation across multiple, ostensibly-unrelated businesses is certainly one of them—if only there were clear, undeniable evidence this does more than prop up stagnant or declining businesses with growth at others. Operating disynergies are potentially another, if the board—even while blurting out such large, unsubstantiated numbers as $4 billion in up-front costs and $1 billion per year thereafter—weren't simultaneously denying the very compelling evidence from the Coatings business experience that there are equally sizeable, unnecessary costs embedded in the current corporate structure as well. Tax efficiency is potentially a third compelling argument, if there were evidence the cost structure itself were already so efficient that the tax opportunity, no matter how big in absolute terms, weren't simply small beer in relative terms.

Still more confounding is that the board itself, in launching the Fresh Start initiative, seems to have implicitly acknowledged that there is work to be done. This would be promising if the difference with the dissidents came down to just a difference in predictions about the scale of the opportunity. It is not. The first order of business on the board's list—spinning the Performance Chemicals unit, along with its operating costs—won't do anything for cost efficiency in the ongoing operations. If it is true that spinning the Performance Chemicals will reduce expenses, one has to at least concede it will also reduce revenue, which is hardly the point of cost-cutting to begin with.

This is ultimately just financial sophistry. Spinning off a business to "cut costs" is like removing your coat so you can tell the doctor you've lost weight: repeat

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the move until you've shed the last vestige of modesty, but you still won't have addressed the real issue

Conclusion: Is Change Warranted?

This is not a broken company—but there is compelling evidence that the dissidents are onto something in their critique. Operating efficiency is not what it should be, yet instead of addressing the core issues the board and management, at least in their communications with shareholders, are more inclined to obfuscation than accountability.

The risk, ultimately, is highlighted in the telling example with which the dissidents began their critique: the rise in share prices which the board touts as evidence of "delivering superior shareholder value" is increasingly disconnected from financial performance. It cannot remain disconnected forever, particularly when the company is still forecasting that key metrics of performance, like EPS, will continue to underperform the level they achieved more than three years ago, no matter how many "new" products the company's "innovation platform" has launched in the interim.

The dissidents have also criticized the company for poor corporate governance.

On the surface, this makes no sense. This is a company with an annually-elected board and a majority voting standard which allows shareholders to call special meetings and act by written consent. It has neither a poison pill in place nor supermajority voting requirements to amend the governing documents or approve a sale of the company, appearing instead to allow shareholders full use of the most elemental rights of ownership and control. It appears to manage board succession thoughtfully, through annual performance appraisals and a long-game recruiting process that brought aboard two highly regarded former CEOs, in the midst of a high profile proxy contest, who even the dissident publicly commended in response to the announcement. In stark contrast to so many companies facing a proxy contest, none of its governance provisions appear to have been adopted in response to "an activist" being in the stock, suggesting the board's commitment to principals of good governance runs much deeper than political expediency.

And yet good corporate governance is ultimately about substance as well as form, and outcomes as well as provisions. At some point good governance has to eschew sleight-of-hand in demonstrating to shareholders the "competitiveness" of the business itself, or address the full reality of a fact pattern rather than the narrow distinction of an accounting definition, or hold a board and management team accountable for the operating performance they promise, not deflect to mere share price performance when the two become disconnected.

If it remains utterly unclear whether this company should in fact be broken up, it seems eminently clear that there is a compelling need for a minority change at the board level to address these myriad other, more immediate and perhaps more promising, issues the dissidents have substantiated.

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2. Which Nominees?

Candidates for Election

The dissidents have targeted the following incumbents for removal:

Robert A. Brown, 63, a DuPont director since 2007, is President of Boston University. He was previously provost and a professor of chemical engineering at the Massachusetts Institute of Technology. The board has nominated him for his "invaluable science and technology perspective combined with senior management capabilities."

Alexander M. Cutler, 63, a DuPont director since 2008, is Chairman and CEO of Eaton, where he previously held a number of senior operating and executive roles. He currently serves on the board of KeyCorp. The board has nominated him for his "wealth of global business management, finance, investor relations, marketing and supply chain and logistics experience in a multinational manufacturing company," as well as his insights on corporate governance and government relations.

Lois D. Juliber, 66, a DuPont director since 1995, was Vice Chairman of Colgate-Palmolive Company, where she had previously served in a number of senior operating and executive roles. She currently serves on the board of Mondelez International, and was previously a director of Goldman Sachs. The board has nominated her for her "deep and broad experience leading and profitably growing global businesses," including "growing U.S.-based businesses in emerging markets such as China and India," and in particular for the way her "expertise in marketing, R&D / product development, supply chain management, information technology, human resource development and business development" complements the company's own strategic priorities.

Lee M. Thomas, 70, a DuPont director since 2011, was chairman and CEO of Rayonier Inc., and had previously served in senior operating and executive roles at Georgia-Pacific Corp., as Chairman and CEO of Law Companies Environmental Group Inc., and as administrator of the U.S. Environmental Protection Agency. Mr. He currently serves on the boards of Airgas Inc., the Regal Entertainment Group, and the World Resources Institute. The board has nominated him based on his "deep understanding of corporate governance, finance, global business and investor relations" from his experiences as president/CEO of two public companies, as well as his insights on government relations and environmental management.

The dissidents have nominated the following candidates to replace them:

Nelson Peltz, 72, co-founded Trian Fund Management, L.P., in 2005, and serves as CEO of the fund. Prior to Trian he was Chairman and CEO of Triarc Companies, Inc. (now known as The Wendy's Company), Chairman and CEO of Triangle Industries, Inc., and Chairman and CEO of Avery, Inc. He is currently Chairman of The Wendy's Company, serves on the boards of Mondelēz International, Inc., and The Madison Square Garden Company, and has previously served on the boards, among others, of Ingersoll-Rand plc, H.J. Heinz Company, and Legg Mason, Inc. The dissidents have nominated him for his experience in corporate governance as well as the "strong operating experience and strategic planning skills …[he] possesses through his experience as a hands-on executive and active board member on numerous boards "

John H. Myers, 69, was CEO of General Electric Asset Management (GEAM), the asset management subsidiary of General Electric Company responsible for approximately $200 billion in AUM for GE and external clients. He is currently a Senior Adviser at Angelo Gordon & Co., a member of the Executive (Advisory) Board of Aurora Capital Group, serves on the boards of Legg Mason and the Pebble Beach Company, and was previously a director of Hilton Hotels Corporation, among other firms. The dissidents have nominated him for "the knowledge and experience he has gained while serving in various management positions for over 35 years with GE …[including the] extensive leadership and financial experience [he gained] while serving as President and Chief Executive Officer of GEAM."

Arthur B. Winkleblack, 57, was CFO of H.J. Heinz Company until it was sold to Berkshire Hathaway Inc. and 3G Capital in June 2013. He previously held senior finance positions in the consumer products arm of private

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equity firm Hicks, Muse, Tate and Furst, and at Six Flags Entertainment Corporation, AlliedSignal, Inc., and PepsiCo, Inc. He currently serves on the boards of Church & Dwight Co., Inc., and RTI International Metals, Inc. The dissidents have nominated him for his "knowledgeable perspectives on strategic planning, international operations, acquisitions and divestitures and cost and financial controls" gained over his tenure "as CFO of a large multinational company ...[responsible for] performance management, compliance, risk management, public company reporting and investor relations."

Robert J. Zatta, 65, was CFO (and most recently, Acting CEO) of Rockwood Holdings, Inc. until that firm's acquisition by Albermarle Corporation in January 2015. He previously held senior finance and strategy positions with the Campbell Soup Company, General Foods Corporation, and Thomas J. Lipton, Inc. The dissidents have nominated him for his "expertise in operations, strategic planning, cost and financial controls and public company reporting, which he has developed through his experience as a senior executive at several global companies" including, most recently, a star performer in the specialty chemical sector.

The dissidents have also identified one alternate nominee, should the board be expanded prior to the meeting or any of the other dissident nominees become unable to stand for election:

Edward P. Garden, 53, is a founding partner and CIO of Trian Fund Management, L.P. He was previously an investment banker with Credit Suisse First Boston, BT Alex Brown, and Drexel Burnham Lambert, as well as CEO of All-American Brush Mfg. Corp. He currently serves on the boards of The Wendy's Company, Family Dollar Stores, Inc., and The Bank of New York Mellon Corporation, and was previously a director of Triarc Companies, Inc. (now known as The Wendy's Company). The dissidents believe he will be an appropriate alternate nominee because of his experience, as both "director and senior executive of several public companies …[working] with management teams and boards of directors to implement operational improvements," as well as his experience "advising, financing, operating and investing in companies."

Dissident Nominee Compensation

Trian has provided each of the three unaffiliated nominees—Myers, Winkleblack, and Zatta—a fee of $100,000 for agreeing to stand as candidates for election. None of the nominees, if elected, would receive any additional compensation from Trian for board service.

Analysis

1. Should Nelson Peltz's age disqualify him?

Nelson Peltz is 72, the threshold after which, under DuPont's Corporate Governance Guidelines, no director may stand for reelection. He appears to be an eligible candidate on the dissident slate, to which this guideline does not extend, and though the company has contended that his election is either unnecessary, it has not raised the fact of his age itself as a reason shareholders should believe his election inadvisable.

However, shareholders who wish to elect him to the board in this contest should also consider the possibility that, unless the company adjusts its mandatory director retirement age policy, Peltz will be ineligible for renomination in one year. The dissident proxy statement does note that "a waiver from the Board (or a modification of the Governance Guidelines) may be required for Mr. Peltz to be re-nominated by the Company to stand for reelection at subsequent annual meetings."

The board has already raised its mandatory retirement age once, on Oct. 29, 2008, when it increased from 70 to 72. That change enabled the board to add a new director at the next annual meeting, Samuel W. Bodman, who was then 70 years old and would have been ineligible for nomination under the previous retirement age policy. Additionally, by the same annual meeting 5-year incumbent John T. Dillon had also reached the age of 70, and would therefore also have been ineligible for board nomination had the retirement age not been increased.

DuPont asserts that the 2008 decision to increase the director retirement age was driven not to enable nomination of these two individuals at the 2009 annual meeting, but by a survey of mandatory retirement ages at other

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companies, and the desire to come more into line with the practice at other firms. According to data from ISS' Quickscore, about a third S&P500 firms have a mandatory retirement age for directors, ranging from 70-80 but overwhelmingly clustered at 72 years (51%) and 75 years (29%). Dupont's board also conducts annual assessments of individual members, the company notes, as well as the overall match between its existing experience and skillsets and the evolving challenges the company faces. Since 2009, four directors have retired on reaching age 72 (including current incumbent Bertrand Collomb, who is retiring at the 2015 annual meeting); the board has not granted any exceptions to the retirement age policy.

ISS does not necessarily regard mandatory director age limits, if already in place, as poor governance practice. Forced retirement may, however, result in the loss of valuable directors whose knowledge of, and experience with, a company's operations and industry is important, and perhaps more beneficial than the contributions of less-experienced directors. ISS therefore generally recommends AGAINST both management and shareholder proposals to limit the tenure of outside directors through mandatory retirement ages (but will continue to scrutinize boards with lengthy average tenures for independence from management and for sufficient turnover to ensure that new perspectives are being added to the board).

By contrast with board renewal strategies based on a director's age, shareholders gain much more by retaining the ability to evaluate and cast their vote on all director nominees once a year and by encouraging companies to perform periodic director evaluations. Ideally, such a process should consider whether it will:

- be conducted by the Corporate Governance/Nominating Committee or another independent committee?
- be annual (which is preferable), or from time-to-time?
- assess individual directors, or the board as a whole – or, preferably, both?
- use self-evaluations or peer reviews?
- require directors meet performance criteria to be renominated?
- allow for the removal of a director that is failing?

A proxy contest, of course, is a referendum on exactly the same issues about the suitability of the existing directors for the challenges the company currently faces—and even attorneys for Wachtell, Lipton, the company's advisor in this proxy contest, have written in the New York Law Journal that "it is often the case that older directors are among the savviest and most skilled board members." As such, shareholders are probably better served by basing their votes on the dissidents' critique and the board's response, and what that critique and response imply about the fitness of the dissident and targeted management nominees, rather than a simplifying rule that reduces the discussion to mere biological age.

2. Will the Very Active Participation Style of a Trian Executive Be Too Disruptive?

The company, in offering to settle the contest by adding a Trian nominee, has insisted it not be a Trian executive—Peltz or alternate nominee Garden—because it believes Trian has a "practice of establishing a 'shadow management team' committed to advancing Trian's agenda," which the board continues to assert is "to advance a break up proposal."

The specter of a "shadow management team" certainly sounds sinister. Trian is explicit about the fact that when one of its executives goes on a board, the firm dedicates analysts to supporting that director, including ongoing, extensive analysis of strategies, performance, and other issues as well as preparation for board meetings. For a management team, getting that sort of intensive, unsolicited "help"—as dissident nominee Winkleblack, who was CFO at Heinz when Peltz won seats in 2006, freely admits—can be unwelcome at first. Shareholders, however, should consider the larger question of whether it may be necessary: have management and the incumbent board demonstrated sufficient accountability for results, and clarity in their communications with shareholders, that such "help" is unnecessary? In this case, as the analysis of Question 1 of our framework demonstrates, there is credible reason to believe such "help" might be beneficial to shareholders.

Trian has reiterated repeatedly that it would like to explore with the enhanced information available inside the boardroom whether "management is capable of achieving best-in-class revenue growth and margins with the existing portfolio or whether there is a need to separate the portfolio." It has also stated repeatedly that its nominees are "open-minded as to the best path

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forward." Clearly, if any dissident nominees are elected to the board, regardless of whether they are Trian executives, this discussion is likely to take place. Given the company's demonstrable difficulty communicating clearly and unequivocally with shareholders about its actual performance, operating challenges, and accountability for results, however, there seems little reason to believe a robust, fact-based boardroom discussion of this topic, as well, would somehow not be in the best interest of shareholders.

This is particularly the case when the dissidents, even if successful in winning all four seats, would still represent only a minority of the board. Given the evidence of other such situations in which Peltz served as a director—such as Ingersoll-Rand, where he was persuaded through discussion and the better information available to those in the boardroom that a three-way breakup was not feasible—the real risk seems less that one wily shareholder nominee outfoxes eight incumbents than that the right issues are never fully aired.

3. Which nominees?

The evidence of this contest strongly suggests that the extensive preparation of the Trian method—providing its executives who go on boards with extensive analytic support throughout their tenures— may be not simply desirable, but necessary to drive the appropriate change. The testimonials from prior boards on which Peltz has served suggest this is ultimately not a "shadow management team" so much as a commitment to ensuring informed and effective advocacy participation in the boardroom. Peltz' election thus seems clearly in the best interest of all shareholders.

Myers' background running General Electric's asset management subsidiary for 20 years obscures his full appeal for this particular board assignment: over 35 years with GE he also served in a number of other management positions in what was, at least at the time, considered one of the premier management academies in corporate America, developing a firsthand experience in the challenges and opportunities of managing a multinational conglomerate.

The GE Asset Management story itself, however, may best illustrate why his presence in this board room could be advantageous for all shareholders. Myers grew the asset management business from $58 billion to $200 billion in AUM over his two decades—a 13% CAGR. As one consequence, GE did not have to make any corporate contributions over the two decades of his tenure. Like Peltz, he brings an investor perspective to the boardroom—but he also has significant, long-term experience managing and growing a business within a larger conglomerate structure.

Both Zatta and Winkleblack appear well-qualified nominees, particularly given their experiences as CFO's with significant strategic responsibilities. In an engagement with the dissident nominees as part of our research process, their CFO experiences seem sufficiently diverse to believe they would be complementary, not duplicative, in the boardroom.

- Zatta's role at specialty chemicals company Rockwood Holdings, Inc. from 2001 through its sale to Albemarle Corp. in 2014 is clearly relevant for the industry background—but also for the performance of the company itself, such as its 7-year EPS CAGR of 19%—nearly four times that of the S&P Chemicals index—through the point at which it sold more than half its business in 2013. Though Rockwood was a roll-up, it produced best-in-class margins—in part by hewing to a lean strategy under which corporate costs were never more than 1% of sales.
- Winkleblack, though CFO at Heinz for over a decade, also had 15 years prior experience at AlliedSignal and PepsiCo, as well as six years in private equity. Like Zatta at Rockwood, Winkleblack's tenure at Heinz reflects a keen attentiveness to efficient growth: Return on Invested Capital, for example, increased 560 basis points from 2006-2012 even as the company grew to become a leading global player with 2/3 of its sales outside the US, including doubling its revenue from emerging markets.

Our analytic framework, however, focuses on the question of which nominees are necessary to drive the appropriate change in the board room, not the larger question of what the optimal selection, out of all available nominees, might be. Accordingly, as the dissidents have made a compelling case that change is warranted, we recommend votes on the dissident card FOR nominees Peltz and Myers.

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