THIRD POINT

Title: "Third Point Takes Significant Dow Position; Calls for Strategic Review"

Third Point LLC discusses for the first time an investment in The Dow Chemical Company this morning on Hvst.com. The following is an excerpt from the firm's Quarterly Investor Letter dated January 21, 2014:

The Dow Chemical Company

Third Point's largest current investment is in The Dow Chemical Company ("Dow"). Dow shares have woefully underperformed over the last decade, generating a return of 46% (including dividends) compared to a 199% return for the S&P 500 Chemicals Index and a 101% return for the S&P 500.[1] Indeed, in April 1999, nearly 15 years ago, an investor could have purchased Dow shares for the same price that they trade at today! These results reflect a poor operational track record across multiple business segments, a history of under-delivering relative to management's guidance and expectations, and the ill-timed acquisition of Rohm & Haas. The company's weak performance is even more surprising given that the North American shale gas revolution has been a powerful tailwind for Dow's largest business exposure – petrochemicals.

We believe that Dow would best serve shareholders' interests by engaging outside advisors to conduct a formal assessment of whether the current petrochemical operational strategy maximizes profits and if these businesses align with Dow's goal of transforming into a "specialty" chemicals company. The review should explicitly explore whether separating Dow's petrochemical businesses via a spin-off would drive greater stakeholder value.

Dow's petrochemical operational strategy has been to migrate downstream, supposedly to earn higher margins, to become more "specialty," and to increase the number of customer-facing products. Over the past five years, the shale revolution in North America has led to a boom in natural gas liquids production which has dramatically reduced raw material costs, while China and other emerging market economies have aggressively grown downstream derivatives capacity. This combination has led to significant upstream margin expansion in North America,

1. Capital IQ data as of 1/10/14. Includes stock appreciation plus dividends paid.

where Dow is the largest ethylene producer, and a commoditization of numerous downstream derivatives margins. Dow's current petrochemical strategy seems misaligned with the changed landscape.

Perhaps unsurprisingly, our analysis suggests that Dow's downstream migration strategy within petrochemicals has not yielded material benefits so far and instead may be a significant drag on profitability. We have examined Dow's aggregate petrochemical capacities (and associated industry product margins) and compared its petrochemical cost base and profitability with pure-play peers. Our work suggests that upside from both cost-cutting and operating optimization could amount to several billion dollars in annual EBITDA. We suspect that Dow's push downstream has led the company to use its upstream assets to subsidize certain downstream derivatives either by sacrificing operational efficiency or making poor capital allocation decisions, or both. Poor segment disclosure combined with Dow's opaque and inconsistent transfer pricing methodology for internally sourced raw materials makes it difficult for shareholders (and presumably, the Board of Directors) to ascertain which business units are most challenged. What is easily ascertainable is that the magnitude of the aggregate under-earning warrants a comprehensive strategic review, preferably with the assistance of an objective outside advisor answerable to a special committee of the Board.

We believe Dow should apply the intelligent logic of its recently announced chlor-alkali separation to the entirety of its petrochemical businesses by creating a standalone company housing Dow's commodity petrochemical segments ("Dow Petchem Co.").[2] Such a separation would accomplish two important objectives. First, the split would accelerate Dow's transition to a true "specialty chemicals" company focused on attractive end-markets such as agriculture, food, pharmaceuticals, and electronics. Second, the standalone Dow Petchem Co. could realign its strategy away from largely focusing on downstream migration/integration and towards overall profit maximization.

The optimization of Dow Petchem Co. combined with the significant step-up in earnings from organic growth initiatives already put in place by management – the PDH plant, the Sadara JV, and the U.S. Gulf Coast greenfield ethylene cracker – could translate into future EBITDA well in excess of $9 billion on a stand-alone basis. This would be before any improvement attributable to what management refers to as the "ethylene upcycle". Both the "self-help" and cyclical upside opportunities create a compelling investment case, which is not reflected in Dow's current share price considering the entire company's 2013 EBITDA base is ~$8 billion.

2. Dow Petchem Co. would generally consist of the Feedstocks & Energy, Performance Plastics, and Performance Materials segments.

Despite Dow's best efforts to migrate downstream and become a specialty chemicals company, the market remains unconvinced. By creating Dow Petchem Co., the strategic direction of these businesses would no longer be dictated by the broader Dow strategy of becoming more specialty-focused. Instead, management could transform these businesses into a best-in-class, low-cost commodity petrochemical company.

The remaining Dow Chemical ("Dow Specialty Co.")[3] would be the specialty chemicals leader that Dow has aspired to become for much of the past decade. Here too, we see meaningful upside over the coming years:

- In Dow's Agricultural Sciences segment, significant investments have been made in R&D which have yet to translate to profits, most notably in the development of Dow's ENLIST trait package. We are optimistic that ENLIST will be successfully adopted in the South American soybean market, where it has a natural first-mover advantage given that the 2,4-D herbicide is approved for use in Brazil and Argentina. The South American soybean opportunity alone for ENLIST could increase divisional EBITDA by 30-40% once fully penetrated.
- In the Electronics & Functional Materials segment, we see niches with strong end-market growth and high barriers to entry, leading to above-GDP growth rates and sustainably robust returns on invested capital.
- Finally, the Dow Corning JV represents a valuable call option on solar power adoption as total system costs for solar continue to compress and become increasingly competitive with other fossil-fuel electricity alternatives in much of the world.

Dow Specialty Co. should command a premium to Dow's current multiple, and potentially a premium to other specialty chemicals companies given its attractive EBITDA growth prospects. The market is skeptical of Dow's divisional margin targets given the lack of clarity around how they were derived and the lack of progress toward achieving them. However, even if management fails to attain their targets, we still see the potential for Dow Specialty Co. EBITDA to ramp up to the $4-5 billion range over the next 3 to 5 years, compared to a 2013 base of ~$2.8 billion.

We believe management's main concern about a spin-off of Dow Petchem Co. will likely relate to the integrated nature of Dow's overall portfolio. Importantly, the majority of the integration in Dow's portfolio exists between upstream / downstream petrochemicals and these businesses would remain together in Dow Petchem Co. In addition, the integration between Dow Petchem

3. Dow Specialty Co. would generally consist of the Agricultural Sciences, Coatings & Infrastructure, and Electronic & Functional Materials segments.

Co. and Dow Specialty Co. is limited to commoditized raw material transfers. Having some amount of commoditized raw material integration does not create differentiation in specialty products nor does it materially increase margins (unless the raw material inputs are being subsidized by Dow's petrochemical segments). The segments within Dow Specialty Co. which primarily consist of legacy Rohm & Haas businesses and Dow's Agricultural Sciences segment have successfully operated without raw material integration in the past, or have peers that are able to achieve higher margins without any raw material integration.

We appreciate this consideration; it is why we have contemplated a scenario in which both the upstream and downstream petrochemical businesses are spun-off together into Dow Petchem Co. We believe the benefits from a spin-off, including financial uplift from operational improvements at Dow Petchem Co. and the potential valuation uplift from increased business focus and disclosure, far outweigh the supposed integration benefits.

Finally, as Dow management looks to further its journey in unlocking value for shareholders, it now has the balance sheet flexibility to consider a meaningful share buyback that could more than offset the share issuance from the conversion of the Warren Buffett/KIA securities issued in conjunction with the financing of the Rohm & Haas acquisition.[4] Combined with the Dow Petchem Co. spin-off, Dow could pave a path toward increased disclosure, greater management accountability for individual business segment performances, and enhanced alignment of interests between management and shareholders. With the difficult task of balance sheet de-levering behind it, Dow finally has the opportunity to embark on its next transformational deal during CEO Andrew Liveris' tenure.

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4. Dow has $4.0 billion in outstanding 8.5% convertible preferred securities issued to Berkshire Hathaway and the Kuwait Investment Authority. The $340 million annual dividend payments are not tax-deductible. The securities may be converted to equity at Dow's option beginning in April 2014, if Dow's closing share price exceeds $53.72 (130% of the "conversion price") for 20 trading days within any period of 30 consecutive trading days.