



# Shining A Light On DuPont's Rhetoric

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**DuPont Can Be Great**

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## Introduction

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- On February 17, 2015, DuPont issued a letter & presentation to shareholders trumpeting “outstanding” results, while again, in our view, making misleading assertions and presenting incomplete data
- Instead of dwelling on each of DuPont’s misleading assertions, Trian will focus on DuPont’s claims around 2011 EPS, which we believe shine a light on the magnitude of the rhetoric DuPont employs in order to obfuscate its history of poor operating performance
- Trian chose to focus on the 2011-2014 time period as it represents a normalized environment during management’s tenure. We believe that the performance between 2009 and 2011 was driven by tailwinds from the cyclical recovery after the financial crisis, and that the 2011-2014 period isolates management’s performance and reveals its struggles to grow earnings
- Setting the record straight on 2011 EPS underscores that management continues to struggle operationally as evidenced by the fact that the Company expects 2015 earnings to be lower than the 2011 level for the fourth year in a row

**DuPont can be great, but as this presentation shows, it will  
require the board to hold management accountable**

# The Saga of DuPont's 2011 EPS: Which EPS Number Will DuPont Choose Today?

- **DuPont's Written Statement:** "Trian's analysis relies on a 2011 EPS of \$4.32 that is not reported in DuPont's public filings..." – DuPont presentation, February 2015
- **The Reality:** DuPont has provided nine different "versions" of 2011 EPS

2011 GAAP EPS				2011 Non-GAAP EPS				
1	2	3	4	5	6	7	8	9
\$3.68 <sup>(1)</sup>	\$3.30 <sup>(2)</sup>	\$3.38 <sup>(3)</sup>	\$3.77 <sup>(4)</sup>	\$3.93 <sup>(5)</sup>	\$3.55 <sup>(6)</sup>	\$4.02 <sup>(7)</sup>	\$3.63 <sup>(8)</sup>	\$2.03 <sup>(9)</sup>
Source: 2011 10-K Page F-4	2012 10-K Page F-4	2012 Databook Page 4	2013 10-K Page F-4	1/24/12 8-K Page 14	1/22/13 8-K Page 15	2012 Databook Page 4	12/14 Non-GAAP Reconcl. Page 7 <sup>(10)</sup>	DEFA14A 2/17/15 Page 5 ("Important Facts For DuPont Shareholders")
Disclosure / Filing Date: 2/9/2012	2/7/2013	March-2013	2/5/2014	1/24/2012	1/22/2013	March-2013	1/27/2015	2/17/2015

**Since January 2012, DuPont has provided nine different versions of 2011 EPS.  
Can DuPont's independent directors explain why that is?  
Trian's nominees will seek to ensure that the board holds  
management accountable.**

Source: Bloomberg, Company Transcripts, SEC filings, Trian calculations.  
DuPont labels each of these nine EPS figures as follows: (1) "Diluted earnings per share of common stock". (2) "Diluted earnings per share of common stock from continuing operations". (3) "Income from continuing operations after income taxes – diluted". (4) "Diluted earnings per share of common stock". (5) "EPS excluding significant items". (6) "EPS from continuing operations, excluding significant items". (7) "Operating earnings after income taxes – diluted". (8) "EPS – Excluding Significant Items". (9) "Adjusted Operating EPS (excluding Performance Chemicals, Pharma) (Non-GAAP)".  
(10) See: E. I. DU PONT DE NEMOURS AND COMPANY AND CONSOLIDATED SUBSIDIARIES NON-GAAP RECONCILIATIONS: 2008 – 2014, on Company Website 1/27/2015.

## DuPont Changed Its EPS Reporting Methodology In Late 2012; Then Suggested Reduced Margin Targets Were Correlated To Its Accounting Change

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- In December 2012, DuPont introduced a new EPS reporting methodology, called “Operating EPS”, which adds back non-operating pension/other post-employment benefit (“OPEB”) costs to non-GAAP EPS
- At its May 2013 Investor Day, DuPont gave long-term margin targets by business that differed from those given at its 2011 Investor Day
- The Company suggested the difference between these targets was merely an accounting difference (i.e. the non-operating pension / OPEB adjustment); responding to a question about the Industrial Biosciences and Performance Materials segments, management said the following:
  - “In terms of margins, the accounting change really accounts for the shift that you're seeing. So we have not revised up or revised down our expectations”
- It took prodding from a research analyst during the Q&A for DuPont to admit that certain margin targets were lowered
  - “...Safety and Protection margin [targets] that you show are 21% to 23% which is what they were 18 months ago. But you now exclude your pension cost...[which was] more than 500 basis points.” – JP Morgan analyst<sup>(1)</sup>
  - DuPont responded: “...You're right, Jeff. The margin is lower between 400 and 500 basis points from that standpoint”

**At DuPont’s 2013 Investor Day, management was not transparent about reducing margin targets, suggesting that reduced margin targets were correlated to the accounting change. Were DuPont’s independent directors aware of this? Trian’s nominees will seek to ensure that the board holds management accountable.**

# The Saga of DuPont's 2011 EPS: Trian's Calculation of DuPont's 2011 EPS is Intellectually Honest

- Trian's calculation of DuPont's 2011 EPS simply conforms DuPont's originally reported non-GAAP EPS (\$3.93) to DuPont's most current reporting methodology by adding back non-operating pension/OPEB costs**

**Source:** Taken directly from Q4 2011 Earnings Release page 14 (Management was paid for delivering this level of EPS in 2011)



DuPont's Originally Reported Non-GAAP 2011 EPS: \$3.93	
	<u>2011</u>
EPS	3.68
Significant items (benefit) charge included in EPS (per Schedule B)	0.25
EPS excluding significant items	<u>3.93</u>

**Source:** Taken directly from Company's January 2015 Non-GAAP Reconciliation page 7<sup>(1)</sup>



	+	
		<b>Year 2011</b>
Non-Operating Pension & OPEB Costs		<b>\$0.39</b>
	=	
		<b>Year 2011</b>
<b>Trian's Calculation of DuPont's 2011 Operating EPS</b>		<b>\$4.32</b>

(1) E. I. DU PONT DE NEMOURS AND COMPANY AND CONSOLIDATED SUBSIDIARIES NON-GAAP RECONCILIATIONS: 2008 – 2014, on Company Website 1/27/2015.

# Now DuPont Re-Writes Its History Of Poor Operating Performance

## Step 1

### DuPont creates a “new” 2011 EPS of \$2.03, down from actual operating EPS

- Excludes 2011 earnings from Performance Coatings
- Excludes 2011 earning from Performance Chemicals
- Ignores the fact that DuPont’s NEOs were paid an aggregate of \$35m when the Company disclosed \$3.93 of earnings (prior to accounting change)

## Step 2

### DuPont creates a “new” 2014 EPS

- **Excludes** earnings from Performance Coatings, but **includes** the returns from investing the Performance Coatings sale proceeds (e.g. share repurchases)
- **Excludes** earnings from Performance Chemicals, but **includes** the returns from the free cash flow that the business generated

## Step 3

### DuPont now takes credit for this “new” manufactured earnings growth

- **DuPont quote:** “ The strength of DuPont’s business is evident in the underlying growth of its on-going business – in that context, adjusted annual EPS growth has been...16.0% from 2011 to 2014”

**Even the DuPont Compensation Committee acknowledges poor operating performance, exercising “negative discretion” and giving management a 0% payout factor for 2014 “corporate performance” under DuPont’s short-term incentive program (STIP).**