

DOW CHEMICAL CO /DE/
Form 10-Q
August 03, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JUNE 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-3433

THE DOW CHEMICAL COMPANY

(Exact name of registrant as specified in its charter)

Delaware

38-1285128

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2211 H.H. DOW WAY, MIDLAND, MICHIGAN 48674

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 989-636-1000

2030 DOW CENTER, MIDLAND, MICHIGAN 48674

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

" Yes No

At June 30, 2018, 100 shares of common stock were outstanding, all of which were held by the registrant's parent, DowDuPont Inc.

The registrant meets the conditions set forth in General Instruction H(l)(a) and (b) for Form 10-Q and is therefore filing this form with a reduced disclosure format.

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The Dow Chemical Company and Subsidiaries

Throughout this Quarterly Report on Form 10-Q, except as otherwise noted by the context, the terms "Company" or "Dow" as used herein mean The Dow Chemical Company and its consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements may appear throughout this report including, without limitation, the section: "Management's Discussion and Analysis." These forward-looking statements often address expected future business and financial performance and financial condition, and often contain words such as "anticipate," "believe," "estimate," "expect," "future," "intend," "may," "opportunity," "outlook," "plan," "project," "seek," "see," "should," "strategy," "will," "would," "ta continue," "will likely result" and similar expressions and variations or negatives of these words. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements.

On December 11, 2015, Dow and E. I. du Pont de Nemours and Company ("DuPont") entered into an Agreement and Plan of Merger, as amended on March 31, 2017 (the "Merger Agreement"), under which the companies would combine in an all-stock merger of equals transaction (the "Merger"). Effective August 31, 2017, the Merger was completed and each of Dow and DuPont became subsidiaries of DowDuPont Inc. ("DowDuPont").

Forward-looking statements by their nature address matters that are, to varying degrees, uncertain, including important risks associated with the Merger and the intended separation, subject to approval of the Company's Board of Directors and customary closing conditions, of DowDuPont's materials science business under the Dow brand as well as the intended separation of DowDuPont's agriculture and specialty products businesses in one or more tax-efficient transactions on anticipated terms (the "Intended Business Separations"). Forward-looking statements are not guarantees of future performance and are based on certain assumptions and expectations of future events which may not be realized. Forward-looking statements also involve risks and uncertainties, many of which are beyond Dow's control. Some of the important factors that could cause Dow's actual results to differ materially from those projected in any such forward-looking statements include, but are not limited to: (i) costs to achieve and achieving the successful integration of the respective agriculture, materials science and specialty products businesses of Dow and DuPont, anticipated tax treatment, unforeseen liabilities, future capital expenditures, revenues, expenses, earnings, productivity actions, economic performance, indebtedness, financial condition, losses, future prospects, business and management strategies for the management, expansion and growth of the combined operations; (ii) costs to achieve and achievement of the anticipated synergies by the combined agriculture, materials science and specialty products businesses; (iii) risks associated with the Intended Business Separations, including conditions which could delay, prevent or otherwise adversely affect the proposed transactions, including possible issues or delays in obtaining required regulatory approvals or clearances related to the Intended Business Separations, associated costs, disruptions in the financial markets or other potential barriers; (iv) disruptions or business uncertainty, including from the Intended Business Separations, could adversely impact Dow's business (either directly or indirectly in connection with disruptions to DowDuPont or DuPont); (v) Dow's ability to retain and hire key personnel; (vi) uncertainty as to the long-term value of DowDuPont common stock; and (vii) risks to DowDuPont's, Dow's and DuPont's business, operations and results of operations from: the availability of and fluctuations in the cost of feedstocks and energy; balance of supply and demand and the impact of balance on prices; failure to develop and market new products and optimally manage product life cycles; ability, cost and impact on business operations, including the supply chain, of responding to changes in market acceptance, rules, regulations and policies and failure to respond to such changes; outcome of significant litigation, environmental matters and other commitments and contingencies; failure to

appropriately manage process safety and product stewardship issues; global economic and capital market conditions, including the continued availability of capital and financing, as well as inflation, interest and currency exchange rates; changes in political conditions, including trade disputes and retaliatory actions; business or supply disruptions; security threats, such as acts of sabotage, terrorism or war, natural disasters and weather events and patterns which could result in a significant operational event for the Company or adversely impact demand or production; ability to discover, develop and protect new technologies and to protect and enforce the Company's intellectual property rights; failure to effectively manage acquisitions, divestitures, alliances, joint ventures and other portfolio changes; unpredictability and severity of catastrophic events, including, but not limited to, acts of terrorism or outbreak of war or hostilities, as well as management's response to any of the aforementioned factors. These risks are and will be more fully discussed in the current, quarterly and annual reports filed with the U.S. Securities and Exchange Commission by DowDuPont. While the list of factors presented here is considered representative, no such list should be considered to be a complete statement of all potential risks and uncertainties. Unlisted factors may present significant additional obstacles to the realization of forward-looking statements.

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Consequences of material differences in results as compared with those anticipated in the forward-looking statements could include, among other things, business disruption, operational problems, financial loss, legal liability to third parties and similar risks, any of which could have a material adverse effect on Dow's consolidated financial condition, results of operations, credit rating or liquidity. Neither Dow nor DowDuPont assumes any obligation to publicly provide revisions or updates to any forward-looking statements whether as a result of new information, future developments or otherwise, should circumstances change, except as otherwise required by securities and other applicable laws.

A detailed discussion of principal risks and uncertainties which may cause actual results and events to differ materially from such forward-looking statements is included in the section titled "Risk Factors" (see Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017). Dow undertakes no obligation to update or revise publicly any forward-looking statements whether because of new information, future events, or otherwise, except as required by securities and other applicable laws.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Income

In millions (Unaudited)	Three Months		Six Months	
	Ended Jun 30, 2018	Ended Jun 30, 2017	Ended Jun 30, 2018	Ended Jun 30, 2017
Net sales	\$ 15,793	\$ 13,834	\$ 30,692	\$ 27,064
Cost of sales	12,400	10,761	23,952	20,955
Research and development expenses	407	408	793	827
Selling, general and administrative expenses	748	720	1,499	1,479
Amortization of intangibles	155	157	314	312
Restructuring and asset related charges (credits) - net	98	(12)	)263	(13)
Integration and separation costs	231	136	433	245
Equity in earnings of nonconsolidated affiliates	231	54	474	250
Sundry income (expense) - net	5	322	88	(122)
Interest expense and amortization of debt discount	274	226	544	445
Income before income taxes	1,716	1,814	3,456	2,942
Provision for income taxes	406	455	769	668
Net income	1,310	1,359	2,687	2,274
Net income attributable to noncontrolling interests	31	38	66	65
Net income available for The Dow Chemical Company common stockholder	\$ 1,279	\$ 1,321	\$ 2,621	\$ 2,209
Depreciation	\$ 606	\$ 534	\$ 1,227	\$ 1,112
Capital expenditures	\$ 564	\$ 795	\$ 987	\$ 1,549

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Comprehensive Income

In millions (Unaudited)	Three Months		Six Months	
	Ended Jun 30, 2018	Jun 30, 2017	Ended Jun 30, 2018	Jun 30, 2017
Net income	\$1,310	\$1,359	\$2,687	\$2,274
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on investments	(14	)9	(39	)8
Cumulative translation adjustments	(470	)387	(94	)626
Pension and other postretirement benefit plans	124	101	250	203
Derivative instruments	118	(39	)124	(89
Total other comprehensive income (loss)	(242	)440	241	748
Comprehensive income	1,068	1,799	2,928	3,022
Comprehensive income (loss) attributable to noncontrolling interests, net of tax	(1	)40	27	93
Comprehensive income attributable to The Dow Chemical Company	\$1,069	\$1,759	\$2,901	\$2,929
See Notes to the Consolidated Financial Statements.				

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Consolidated Balance Sheets

In millions, except share amounts (Unaudited)	Jun 30, 2018	Dec 31, 2017
Assets		
Current Assets		
Cash and cash equivalents (variable interest entities restricted - 2018: \$116; 2017: \$107)	\$4,823	\$6,188
Marketable securities	133	4
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables - 2018: \$125; 2017: \$117)	8,951	7,338
Other	4,135	4,711
Inventories	9,346	8,376
Other current assets	898	627
Total current assets	28,286	27,244
Investments		
Investment in nonconsolidated affiliates	3,755	3,742
Other investments (investments carried at fair value - 2018: \$1,720; 2017: \$1,512)	2,488	2,510
Noncurrent receivables	489	594
Total investments	6,732	6,846
Property		
Property	60,761	60,426
Less accumulated depreciation	37,369	36,614
Net property (variable interest entities restricted - 2018: \$786; 2017: \$907)	23,392	23,812
Other Assets		
Goodwill	13,894	13,938
Other intangible assets (net of accumulated amortization - 2018: \$5,424; 2017: \$5,161)	5,236	5,549
Deferred income tax assets	1,672	1,722
Deferred charges and other assets	1,009	829
Total other assets	21,811	22,038
Total Assets	\$80,221	\$79,940
Liabilities and Equity		
Current Liabilities		
Notes payable	\$862	\$484
Long-term debt due within one year	2,837	752
Accounts payable:		
Trade	5,224	5,360
Other	3,939	3,062
Income taxes payable	736	694
Accrued and other current liabilities	3,294	4,025
Total current liabilities	16,892	14,377
Long-Term Debt (variable interest entities nonrecourse - 2018: \$147; 2017: \$249)	17,122	19,765
Other Noncurrent Liabilities		
Deferred income tax liabilities	776	764
Pension and other postretirement benefits - noncurrent	10,305	10,794
Asbestos-related liabilities - noncurrent	1,179	1,237
Other noncurrent obligations	5,930	5,994
Total other noncurrent liabilities	18,190	18,789
Stockholders' Equity		
Common stock (authorized and issued 100 shares of \$0.01 par value each)	—	—

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Additional paid-in capital	6,861	6,553
Retained earnings	29,536	28,050
Accumulated other comprehensive loss	(9,387)	(8,591)
Unearned ESOP shares	(145)	(189)
The Dow Chemical Company's stockholders' equity	26,865	25,823
Noncontrolling interests	1,152	1,186
Total equity	28,017	27,009
Total Liabilities and Equity	\$80,221	\$79,940

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Cash Flows

In millions (Unaudited)	Six Months Ended	
	Jun 30, 2018	Jun 30, 2017
Operating Activities		
Net income	\$2,687	\$2,274
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,666	1,517
Provision (Credit) for deferred income tax	(102)	40
Earnings of nonconsolidated affiliates less than dividends received	123	310
Net periodic pension benefit cost	219	219
Pension contributions	(377)	(381)
Net gain on sales of assets, businesses and investments	(54)	(190)
Adjustment to gain on step acquisition of nonconsolidated affiliate	41	—
Restructuring and asset related charges (credits) - net	263	(13)
Other net loss	249	252
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Accounts and notes receivable	(1,800)	(3,233)
Inventories	(1,011)	(839)
Accounts payable	792	826
Other assets and liabilities, net	(1,146)	(883)
Cash provided by (used for) operating activities	1,550	(101)
Investing Activities		
Capital expenditures	(987)	(1,549)
Investment in gas field developments	(46)	(68)
Proceeds from sales of property and businesses, net of cash divested	48	215
Investments in and loans to nonconsolidated affiliates	(2)	(484)
Distributions and loan repayments from nonconsolidated affiliates	55	54
Proceeds from sale of ownership interests in nonconsolidated affiliates	—	54
Purchases of investments	(900)	(379)
Proceeds from sales and maturities of investments	752	435
Proceeds from interests in trade accounts receivable conduits	656	1,914
Cash provided by (used for) investing activities	(424)	192
Financing Activities		
Changes in short-term notes payable	346	288
Payments on long-term debt	(570)	(105)
Proceeds from issuance of parent company stock	85	—
Proceeds from sales of common stock	—	357
Employee taxes paid for share-based payment arrangements	(84)	(85)
Contingent payment for acquisition of businesses	—	(31)
Distributions to noncontrolling interests	(67)	(51)
Dividends paid to stockholders	—	(1,063)
Dividends paid to parent	(2,110)	—
Other financing activities, net	3	