NB: Welcome to the contrarian investor podcast, where we give voice to those challenging a perceived with them in financial markets. My name is Nathaniel E. Baker. I am your host.

So for the first couple of episodes, we focused on what might be called big picture items or the macro view, if you would. We're talking about the global economy, various pockets of risk that could upend growth, yield curves, inverted yield curves, chances for recession and things like that. And for this episode, I thought what might be interesting is to focus more on the micro, to take somebody who had a contrarian view on individual securities and is willing to come on to the show and to discuss his view.

I was fortunate to find an individual who is willing to do just that. Jim Osman is the founder and CEO of the Edge Group. Jim is going to discuss the situation around the Dow DuPont spin offs. There's actually more than on spinoff here, and the whole thing was, of course, the result of a merger in 2017 between Dow and DuPont. For our purposes as contrarians, what's interesting is that Dow DuPont, which is DWDP, has not performed well at all this year. It's missed the entire rally in equities, and Dow, which listed on April 1, has basically been flat since then, as well, maybe it’s up a bit. But according to our guest, now is the time to buy not only both of the stocks but also the third, which is going to spin off on June 1. In fact, it's the third one that he's potentially most bullish on, saying it is the crown jewel in the entire thing.

One final note is that this podcast is for entertainment purposes only. Nothing we say should be taken as investment advice. Finally, this was a pre recorded telephone call on April 24. And while Jim come through loud and clear, I sound like I have the world's largest sinus infection. So please keep that in mind. But luckily it's mostly him talking and not me. So give it a listen and then get in touch and let us know what you thought. Here we go. Let's roll the tape.

NB: Dow Dow DuPont, which is DWDP, and there’s soon to be a third on June 1, Corteva. I think I'm pronouncing that right. That's going that symbol will be CTVA. Yes, Um, and that that's that'd be the agricultural business. But that's really the interesting thing here. Is that Dow and DowDuPont they've kind of missed the whole rally that we saw in the broader stock market.

JO: Yeah, I’ve actually got a good answer for that.

NB: I hope you do. That's why I have you on the show. I guess that's the first question is why do you like these? In light of everything that kind of happened recently,

JO: DowDuPont has been a process, and, that process has come to an end. Let’s just wind this back a little bit. It started in 2014 with the activist Third Point getting involved, figuring that these companies will be better apart. The general trend today is that big is better. And we’ve seen that in a number of areas really. But in some areas, smaller and more focused is a lot better for investors. And we're seeing that here. DowDupont. Let’s get this straight. We’ve got a material science business with Dow, we’ve got a specialty products agriculture with DowDupont and Corteva, agricultural. They’re semi-intertwined but…there's a good argument for them, you know, being separate and being on their own. So to answer your question and just to give you that that background. yeah, we've seen this before [inaudible] there's this perception of, uh, spinoffs are great, and as soon as spin out

you should buy them because it was value creation and, you know, restructurings as well. And we do a lot of those special situations, but what I found over the period, you know, ten, fifteen, twenty years of doing this is that it doesn't happen all at once, and particularly not the more complex restructurings. It's not always good to get in first and, countrary to popular opinion. So what we've seen is, a lot of, uh, sorting out of the three independent companies and a little change in management and facts and figures come out and all this stuff contributes to investors shying away from these sorts of situations. Because ultimately, if you're uncertain and stuff or there's not the correct figures, then you're just not going invest. So I think that's been the primary reason why these stocks haven't performed just yet, but I think the best is yet to come. You know, we've found that certainly in these restructurings to let them go a little bit. Let the management show what they're worth and then get involved. But I think we've come to a time now where we got three or soon to be three very, very good companies and investors should be taking a look, at least.

NB: Okay, so why now exactly, as we record this on April 24. DWDP listed on April 1, so about three weeks, but do you think that right now is the time to buy that and Dow?

JO: Absolutely. I mean, I was thinking the other day, you know, to myself and looking at these things again, what would I want to buy? And, um, you know what? Quite frankly, it's a little bit funny, but all of them. And, um, and for for very different reasons. You've got various things going on in all of them. I mean, you got for a very, very experienced leadership. I mean, people discount that, and I don't think a lot has been, um, said about that. [inaudible] Some of your listeners will know him from the Tyco days when he split up Tyco and was very, very successful that so these people have been around a long, long time, and they've been working on this split up for a while as well. And just to add in in in our researct: we looked at a study with Deloitte the last twenty years. If companies prepared more than six months for a break out and these guys overprepared a lot more than that, then, uh, these spin offs tend to be much, much more successful. So quality management, you got a factual by study we've done. And you got three very, very focused companies now. We've got lots of things to back this up and we believe it's a good buy. But we almost think that, you know, maybe the best is yet to come with Corteva. But we can talk about that in a bit.

NB: Yeah, let's talk about Corteva in a bit. But for now, the two companies that are public, what about the fundamentals? Like, what is it there that you that you like?

JO: Yeah. Absolutely. DWDP. So it's a high margin profile compared to other businesses and it's a it's a high peer average as well. So we think that could be a real focused business going forward. We like it. We like the management. We expect that to perform going down the line. Dow really is an interesting one. I mean, I personally favor that one. It's involved in plastics, and, you know, there's an argument for well, hold on a second. You know, people aren't using that stuff anymore. But on the contrary. This company's been growing throughout the years and, even the fact that people have been cutting back on plastics and recycling. I don't think that Dow was going to turn into recycling company at any stage. But plastics are scheduled to increase, or triple of the next ten years. Why? Because people using less metal products I mean, just cars coming in, people using more plastics there, um, and things like that. Um, so that's what I think people will be missing. I mean, people who are, you know, so concentrated on the bad stuff. Actually,

you know, there's going to be real growth in plastics [inaudible] we know there's a There's a ban in India now. There's a ban in Europe. Now, um, I think everything has to be plastics by, um, is it 2021. [inaudible] So, uh, like I say, we like that for the expansion in the gross story.

NB: Now, one of the inputs in plastics as you know is, actually oil. And there's other raw materials that go into producing these things. And there's been a big rally in energy markets. Now, certainly that would affect the bottom line of these plastics company, wouldn't it?

JO: Well, yes. I mean, like I said, we tend not to focus on too much of that stuff. I mean, okay, now, from a macro point of view, you know, the basic point. Oil goes up and down. I mean, it depends on more the type of view you're going to look at this all the time. But yeah, it's a key. But oil is important is that can pull through everything in the economy. You know, you can kind of over think a little bit too much, but we prefer to concentrate on the metrics and rather not so much on the macro considerations.

NB: Okay. And so then also, the fact that a lot of these companies' businesses is cyclical and, you know, the economic cycle is probably closer to the end than to the beginning. And so that equally would not be a concern for you guys?

JO: Even, you know, the Dow separation reduces exposures to the rally in oil prices. Anyway, um, the company contributes around fifty percent today. it's actually less volatile now than it was. So there's a good argument for you know, against what you just said.

NB: Okay, let's take a quick break. Reminder that you can find the contrarian investor podcast on itunes and on stitcher and spotify and anywhere else, we you can find a podcast. We are on the social media, but, uh, twitter at PodContrarian and and we also have an instagram, which I have not quite figure out yet. But that is ContrarianPod. You can find this on there, and it also on linked in. We have a Linkedin page too. Please check us out now. Um, Jim tell us where where we can find you.

JO: Absolutely. You can go to the Web. Emcgroup.com Remember the "c" in the middle. You can find a little bit about what we do, some fancy videos. But ultimately, we try and help investors and anyone who invests in special situations. I said before that I think traditional value investing is, you know, very, very difficult. But value investing, coupled with a catalyst and some sort of on restructuring and someone, you know and even to rely on someone who can actually understand like ourselves to present that is the way forward. So that's what we do. Give us a call. Or drop us an email.

NB: Let's continue here with the Dow DuPont Corteva discussion. We have not mentioned Corteva yet. I'm going to ask you about that. But first back to the challenge these are companies that also facing increasing competition. Um, from, you know, you talk about special situations. M&A. In this space, there was a recently a very big merger, as I'm sure you know Monsanto Bayer.

JO: Yeah.

NB: Is that not a cause for concern? The competition that could come from them?

JO: Well, I mean, yes and no. Like I say, I think, in some industries, we think big is better and in these particular focused industries, you're getting a you know, even with Dow, don't discount the fact that, you know, that you're getting a dividend of around five percent. So it's going to be one of the highest among any major companies in the material sector. So it's going to make it attractive, and not only with the management like I keep saying. You're going to find some real quality people within there. So, you know, I always fancied and from our experience in spin offs where we get real quality management, get real focused businesses, um, they really perform. And, uh, and you know what the dividend on the top of that is, uh, is another benefit. But like I say, I think that, you know, new companies coming on to the market like this, I say new, maybe, maybe not some new but new kind entitities. Then people go to focus on you know what? Who's covered it? Is there any value in it? And this is where we receive hidden value in these things because, you know, you got a big company merging and it could take years for those synergies to come through. We believe that these synergies were being worked out before and, were evaluated. And that was just a chance of them realizing them. We think that potentially the sum of the parts could be worth over a hundred bucks in a year. So it's an incentive for people to buy these companies right now. And another thing I don't think the street or let's let's face it what's left of the street, traditionally find some of these smaller companies or companies that spun off because they just don't cover them. Or by the time they cover them, you know you an investor might have got a twenty five percent or thirty percent of it already, and then the street cover them, and then there's a little bit more than at the time to reevaluate. So that traditionally is what we've seen, um, under coverage of the new companies. And so, you know, they're often compared to some of these giant companies.

NB: Fair enough, okay? What do you know about Corteva? By the way, I don't even know how to pronounce it. Is that cour-T-vah or court-EVah.

JO: Well, cou-T-vah. Until we hear different. it's agriculture. it's one of the leaders in the space. And it's an extremely high margin business. It just sounds a little bit boring, and even my description is a little bit boring and people will perhaps ignore this piece. But we think it's a very focused business, and, it's the only listed agricultural company in the [inaudible]. Also, you're going to get attention to this one and potentially, you know, we could see this one, I mean, there's a two year rule with spinoffs, but if it's taken over before the two years, you're gonna have to pay the tax something down the line. This could be a target itself. It's one of the ones that we highlight as a potential target down the road. But what we can see, uhm, and it could be a, uh, and if you want me to nine targets without Chem China, um, to increase its footprint in the U. S. So things like that. But, um, but great business. Um, interesting business, um, doesn't sound it, but it is. And again, I want to emphasize the management when I emphasize the management through these companies, Um and, uh, and and potentially one the investors just watch for I think the the spinoff is the end of June. Um, so they want to kind of take a look at that, or call us for some more information on on the actual company.

NB: Yeah, that that would be very interesting. Indeed. You say, here is a pure play on agriculture and with this one listed here, which is FMC court the tickets up and see ah, market type of potentially $9.9 billion

JO: we think it could be one of the more interesting business like it's extremely high margins. I think some of the debt is being dumped on, um from

DWDP, even which is an additional when they saw spending. Um, but We still believe it's got a very, very strong balance sheet. So it's like, Sounds boring, but could be more interesting one because I'm not seeing any real research out there on the except us. I'm not seeing anyone shout about it, so definitely one you want to watch. Ah, could be. Could be. This could be, you know, the jewel in the crown of of the three. Remember, we had that first, but, um, but that's let's see how that plays out. You know, watch for the first earnings of these spinoff companies. Because frequently, what happens in the first earnings, the maiden earnings, is, and people miss this. Actually what a lot of people, miss this out there is you get incentives from the management. They are produced. So no, always, um, in front of spin offs do companies produce incentives to the management. They produce them on the firstearnings and then and those are, like, ignored. Um, so watch out for that. And also watch for, um, indications of what the company's going to do. What they're going to be refinancing the debt, What they're going to have dividends. It's like you say all the stuff like that. So I say, you know, anyone who's involved in the situation or who are looking to get involved in the situation is watch for the maiden earnings. One is because you get a lot of gold in there and, uh, usually, um, stuff that people just, um, miss. I don’t think there’s too much higher risk on this one. Low to medium risk. I mean, the the they’re well established companies. Um, there's not a huge debt load being branded around. We’ve seeing some of these recently where they dumped a lot of debt, but [inaudible]. So if you want to get involved, um, buy the parent and, uh, and get in there for distribution and wait a little bit of time and see how it trades and you know, look for the valuations. I can come to other find valuations, and we can guide you. But, um, I like all the companies at the moment. It's a great, spinoff. I think the value will be created in the next year, year, and a half. It won’t be created in the next month. As you highlighted before, Nate, the stocks have gone down so they're really showing some value here, we believe. And, um, you know, one for your portfolio, I think. Or three for your portfolio.

NB: Okay, that's that's a good place to conclude. I've been talking with Jim Osman of the Edge consulting group here on the contrarian investor podcast. Please do check us out on Itunes and follow us on Twitter and the other social media. Um, thanks to Jim for coming on, Please remind listeners, Jim, where we can find you?

JO: www.edgecgroup.com

NB: Got it. Thank you so much. And thanks for listening. And we look forward to speaking to you again next time