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DuPont (NYSE:DD) and The Dow Chemical Company (NYSE:DOW) have both approved a definitive agreement under which the companies will combine in an all-stock merger of equals.

The combined company will be named DowDuPont, and the parties intend to pursue a separation of the new entity into three independent, publicly traded companies through tax-free spin-offs.

This would occur as soon as feasible, which is expected to be 18-24 months following the closing of the merger, subject to regulatory and board approval.

The companies will include a global agriculture company, a global material science company, and a technology and innovation-driven specialty products company.

Each of the businesses will have clear focus, an appropriate capital structure, scale advantages, and focused investments in innovation.

"This transaction is a game-changer for our industry and reflects the culmination of a vision we have had for more than a decade to bring together these two powerful innovation and material science leaders," Dow chairman and CEO Andrew N. Liveris said.

"Over the last decade our entire industry has experienced tectonic shifts as an evolving world presented complex challenges and opportunities – requiring each company to exercise foresight, agility and focus on execution.

"This transaction is a major accelerator in Dow's ongoing transformation, and through this we are creating significant value and three powerful new companies."

Dupont chairman and CEO Edward D. Breen said this was an "extraordinary opportunity" to deliver long-term, shareholder value through the combination of two complementary global leaders.

"Each of these businesses will be able to allocate capital more effectively, apply its powerful innovation more productively, and extend its value-added products and solutions to more customers worldwide," he said.

Upon closing of the transaction, the combined company would have a market capitalization of approximately US$130 billion at announcement, according to a release.

Under the terms of the transaction, Dow shareholders will receive a fixed exchange ratio of

1.00 share of DowDuPont for each Dow share, and DuPont shareholders will receive a fixed exchange ratio of 1.282 shares in DowDuPont for each DuPont share.

Dow and DuPont shareholders will each own approximately 50% of the combined company, on a fully diluted basis, excluding preferred shares.

The transaction is expected to deliver approximately US$3 billion in cost synergies, with 100% of the run-rate cost synergies achieved within the first 24 months following the closing of the transaction.

Additional upside of approximately US$1 billion is expected from growth synergies.

Upon completion of the transaction, Dow's Liveris will become executive chairman of the newly formed DowDuPont Board of Directors and DuPont's Breen will become CEO of DowDuPont.

DowDuPont's board is expected to have 16 directors, consisting of eight current DuPont directors and eight current Dow directors. The full list of directors will be announced prior to or in conjunction with the closing of the merger.

The committees of each company will appoint the leaders of the three new standalone companies prior to a contemplated spin-off.

Following the closing of the transaction, DowDuPont will be dual headquartered in Midland, Michigan and Wilmington, Delaware.

The merger transaction is expected to close in the second half of 2016, subject to customary closing conditions, including regulatory approvals, and approval by both Dow and DuPont shareholders.

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