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DuPont Specialty Products USA, LLC

3Q 2024 Earnings

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CORPORATE SPEAKERS:

Christopher Mecray

DuPont Specialty Products USA, LLC; Investor Relations

Lori Koch

DuPont Specialty Products USA, LLC; Chief Executive Officer

Edward Breen

DuPont Specialty Products USA, LLC; Executive Chairman

Antonella Franzen

DuPont Specialty Products USA, LLC; Chief Financial Officer

PARTICIPANTS:

Scott Davis

Melius Research; Analyst

Stephen Tusa

JPMorgan; Analyst

Christopher Parkinson

Wolfe Research; Analyst

Vincent Andrews

Morgan Stanley; Analyst

Joshua Spector

UBS; Analyst

Unidentified Participant

Mizuho; Analyst

Aleksey Yefremov

KeyBanc; Analyst

David Begleiter

Deutsche Bank; Analyst

Frank Mitsch

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Michael Sison

Wells Fargo; Analyst

Patrick Cunningham

Citi; Analyst

Bhavesh Lodaya

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Barclays; Analyst

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Bank of America; Analyst

PRESENTATION:

Operator^ Thank you for standing by. (Operator Instructions) At this time, I would like to welcome everyone to the DuPont third quarter 2024 Earnings Conference Call. (Operator Instructions)I would now like to turn the conference over to Chris Mecray Investor Relations. You may begin.

Christopher Mecray^ Good morning. Thank you for joining us for DuPont's third quarter 2024 financial results conference call. Joining me today are Ed Breen, Executive Chairman; Lori Koch, Chief Executive Officer; and Antonella Franzen, Chief Financial Officer.

We have prepared slides to supplement our remarks, which are posted on DuPont's website under the Investor Relations tab and through the webcast link.

Please read the forward-looking statement disclaimer contained in the slides.

During this call we'll make forward-looking statements regarding our expectations or predictions about the future.

Because these statements are based on current assumptions and factors that involve risks and uncertainties, our actual performance and results may differ materially from our forward-looking statements.

Our Form 10-K as updated by our current and periodic reports, includes detailed discussion of principal risks and uncertainties, which may cause such differences.

Unless otherwise specified, all historical financial measures presented today are on a continuing operations basis and exclude significant items.

We will also refer to other non-GAAP measures.

A reconciliation to the most directly comparable GAAP financial measure is included in our press release and presentation materials and have been posted in DuPont's Investor Relations website.

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I'll now turn the call over to Lori, who will begin.

Lori Koch^ Good morning, and thanks, everyone, for joining our third quarter call. Earlier today we reported another strong quarter of financial performance with continued sequential improvement across all key financial metrics.

We posted a solid quarter highlighted by year-over-year growth for consolidated net sales, operating EBITDA and adjusted EPS. Third quarter sales of \$3.2 billion included a return to organic sales growth which increased 3% versus the year ago period.

Operating EBITDA of \$857 million increased 11%, with operating EBITDA margin increasing 150 basis points to 26.8%.

Third quarter adjusted EPS of \$1.18 increased 28% year-over-year.

We also delivered another strong quarter of cash generation with transaction-adjusted free cash flow conversion of 130%, highlighting our disciplined working capital management.

For the full year 2024, we are raising our guidance for operating EBITDA and adjusted EPS, which Antonella will detail shortly.

From an end market view, the Electronics and Industrial segment saw another quarter of double-digit sales growth in both the semi and Interconnect Solutions lines of business, which continued to benefit from strong demand for advanced node chips and AI enabling technologies.

In the Water & Protection segment, we saw better-than-expected sequential improvement in water including continued stabilization in China volumes.

We also saw further sequential sales lift in medical packaging end markets, which are returning to more normalized buying patterns.

Overall, I'm encouraged by our continued positive results.

Volume recovery has been a key driver of our financial performance, coupled with our team's continued strong operational execution and helped by savings from the restructuring actions taken earlier this year.

I am pleased to say we have made real progress with our operational excellence initiatives with benefits seen in improved margins and working capital and enhanced customer reliability metrics.

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By fostering our culture of continuous improvement and equipping our teams with the right tools and training, we are well positioned to unlock long-term value across each business line.

Specific to the training aspect we have been actively investing in our people and have completed around 30,000 hours of training year-to-date.

We count on operational excellence to drive productivity every year as a key offset to inflation. Through focus on process optimization, we have successfully reduced costs across critical operations with benefits from increased uptime, leading to incremental capacity release and lower fixed and variable costs.

All in, we are pleased to report a strong third quarter and are well positioned for a solid finish to the year.

I'll now turn the call over to Ed, who can provide a few comments around our progress on the planned separations on Slide 4.

Edward Breen^ Thanks, Lori. And good morning, everyone.

We clearly remain focused on driving results and demonstrating the performance potential of our portfolio while also advancing our plans to unlock value through the previously announced separations of our electronics and water businesses.

We remain excited about this value creation opportunity and believe our investors broadly appreciate the potential that we expect these three industry-leading companies to realize by leveraging tailored growth strategies.

Our teams remain highly motivated and have the experience to ensure that the new companies are prepared to operate and execute from day 1.

We continue to make progress on our separation related work streams.

We are also working diligently to accelerate our timing to potentially complete the separations closer to the earlier end of the 18- to 24-month timeline set at our May announcement, and we'll update you as we progress.

In addition, we are making progress in establishing the new Boards, which have been a major focus of mine, and we expect to be able to announce Board members of each company, along with key executive leadership appointments for electronics and water by the end of the first quarter of 2025.

With that, I'll turn it over to Antonella, who will cover our financial results and outlook.

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Antonella Franzen^ Thanks, Ed. And good morning, everyone.

We are very pleased that our third quarter results reflect sequential improvement across all key financial metrics and a return to organic sales growth at the consolidated level. Both earnings and cash flow benefited from volume recovery and improved production rates at key operating sites and our team has executed well on productivity and cost actions announced last year.

Turning to Slide 5, I will cover our third quarter financial highlights in further detail. Net sales of \$3.2 billion increased 4% versus the year ago period on organic sales growth of 3% and favorable portfolio impact of 2%, reflecting contributions from both the Spectrum and Donatelle acquisitions. These increases were partially offset by a 1% currency headwind. The organic sales growth of 3% reflects a 5% increase in volume, partially offset by a 2% decrease in price. Higher volume was driven by continued broad-based growth in electronics end markets with semi and Interconnect Solutions volumes both up double digits, coupled with the return to year-over-year volume growth in Water Solutions.

On a segment view, E&I organic sales grew 10%, and W&P's quarterly organic sales decline moderated further to 2% on its way to an anticipated return to positive growth in the fourth quarter.

Organic sales in corporate declined 6% versus the year ago period driven by continued weakness in China solar markets, which led us to exit a photovoltaic film product line during the third quarter. This product line represents less than 1% of consolidated net sales.

From a regional perspective, Asia Pacific delivered 9% organic sales growth versus the year ago period, led by another strong quarter in China, where organic sales were up low double digits, driven by electronics end markets.

In other regions, organic sales in Europe grew 1%, while North America was down 2%.

Second quarter operating EBITDA of \$857 million increased 11% versus the year ago period as volume gains along with improved plant utilization and savings from restructuring actions were partially offset by higher variable compensation and select growth investments.

Operating EBITDA margin during the quarter increased to 26.8%, up 150 basis points versus the year ago period and up 160 basis points on a sequential basis. Third quarter reflected another period of strong cash generation and conversion, reflecting both improved volumes as well as strong working capital discipline across each business line.

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On a continuing operations basis, cash flow from operations of \$737 million, less capital expenditures of \$109 million and \$12 million of separation-related transaction cost payments resulted in transaction-adjusted free cash flow of \$640 million and related conversion of 130%.

Turning to Slide 6. Adjusted EPS for the quarter of \$1.18 per share increased 28% from \$0.92 in the year ago period. Higher segment earnings of \$0.14 as well as the benefit of a lower share count of \$0.09 and lower tax rate of \$0.6 were partially offset by higher depreciation of \$0.03.

Our base tax rate for the quarter was 19.8%, down from 24.6% a year ago, driven by certain tax benefits recorded in the current period.

We now estimate our full year 2024 base tax rate to be approximately 23.5%.

Turning to segment results, beginning with E&I on Slide 7. E&I third quarter sales of \$1.6 billion increased 13% versus the year ago period, had organic sales growth of 10% and the Spectrum in Donatelle sales contribution of 4% were slightly offset by a 1% currency headwind.

Organic sales growth of 10% reflects an 11% increase in volume, slightly offset by a 1% decrease in price.

As the line of business level, organic sales for Semi were up more than 20% for the second consecutive quarter, reflecting continued overall semi demand recovery driven by AI technology ramps and share gains in certain products.

Semi demand was notably strong in China including continued customer prebuying, similar to what we saw last quarter.

As we move forward, we expect China demand to normalize but still remain strong.

Overall, Semi-fab utilization continues to improve, averaging 76% during the quarter, though notably stronger for advanced node chips due in part to AI-related demand acceleration.

Interconnect Solutions delivered another strong quarter as well with organic sales up low double digits, reflecting continued broad-based electronic recovery including a demand benefit from AI-driven technology ramps.

We saw content and share gains within high-value electronics applications and the volume recovery within the overall printed circuit board space. The year-over-year sales decline in Industrial Solutions continued to moderate as organic sales were down slightly during the quarter.

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Strength in printing and packaging applications was offset by ongoing volume headwinds for Kalrez®.

Also within Industrial Solutions, we completed the acquisition of Donatelle, a medical device manufacturer at the end of August.

We are very pleased with the integration of Donatelle into Spectrum and are seeing the potential benefit to leverage (inaudible) technology and capabilities to other businesses as well as cross-selling opportunities within our healthcare platform.

Operating EBITDA for E&I of \$467 million was up 22% versus the year ago period driven by volume growth, the impact of higher production rates, savings from restructuring actions as well as the earnings contribution from Spectrum and Donatelle. These gains offset by higher variable compensation and select growth investments related primarily to the ongoing transition to advanced nodes and new and ramping AI applications across to semi and interconnect solutions.

Operating EBITDA margin during the quarter was 30.1%, up 210 basis points versus the year ago period. Turning to Slide 8. W&P third quarter net sales of \$1.4 billion declined 2% versus the year ago period primarily due to price headwinds as overall segment volumes were flat. Within Safety Solutions, Organic sales were down mid-single digits, largely on price declines, although with lower volume driven mainly by private medical packaging.

We did see a second consecutive quarter of sequential sales growth in medical packaging with sales up 10% in Q3.

Shelter Solutions sales were down slightly on an organic basis with headwinds in North American residential construction market, mostly offset by growth in commercial construction. The third quarter is it a return to year-over-year sales growth for Water Solutions where organic sales were up low single digits. Higher volumes were driven by strength in ultrafiltration technologies along with continued volume recovery in China.

On a sequential basis, Water Solutions sales also increased for our second consecutive quarter with sales up 3%, which was better than our expectations coming into the quarter.

Operating EBITDA for W&P during the quarter of \$364 million was up 1% versus the year ago period as productivity and savings from restructuring actions more than offset the organic revenue decline and higher variable compensation.

Operating EBITDA margin during the quarter was 26.3%, up 70 basis points from the year ago period.

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As we move into the fourth quarter, we expect strong volume growth on a year-over-year basis.

Moving to our outlook on Slide 9. For the fourth quarter, we expect net sales, operating EBITDA and adjusted EPS of about \$3.07 billion, \$790 million and \$0.98 per share, respectively.

On a year-over-year basis, our fourth quarter guidance has been sales and earnings growth from both E&I and W&P, translating to total company growth in net sales of about 6%.

Operating EBITDA of 10% and adjusted EPS of 13%. Sequentially, we assume normal seasonal declines in our electronics and construction markets.

Additionally, as I mentioned earlier, we expect to see a moderation of growth in China as prebuying in Semi plays out as well as the impact of exiting the PV film product line. Partially offsetting these sequential declines is the continued recovery in water and medical packaging end markets.

For the full year 2024, we are raising our earnings guidance above the high end of our prior range and now expect operating EBITDA of about \$3.125 billion and adjusted EPS of \$3.90 per share, which reflects 12% EPS growth year-over-year. With that, we are pleased to take your questions, and let me turn it back to the operator to open the Q&A.

Operator[^] (Operator Instructions) And the first question comes from the line of Steve Tusa from JPMorgan.

Our next question comes from the line of Scott Davis from Melius Research.

Scott Davis[^] Congrats on the quarter.

I wanted to come back to your comments on the -- it looks like the bid ask on the 18 to 24 months has narrowed down a bit.

But what are the work -- you put the work streams on Slide 4, six of them.

But like what are the gating factors?

Kind of why do you feel a little bit more comfortable today perhaps than three months ago in that timeframe getting short.

Edward Breen[^] Yes. Yes. We've made great progress. Two of the longer poles in the tent of the legal entity work and the IT work to separate everything, and the teams have made tremendous progress on that.

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So our confidence level is definitely up, and that's why we made the comment that we might be more on the 18-month timeline somewhere and maybe in that ZIP code, which if we could get it all the way to that would be December 2025.

So we'll keep you posted on that.

We're pretty positive.

We're going to move it in. The issue is can we move it in all that way.

Scott Davis^ Okay.

Fair enough. And guys, the electronics business, the prebuy that you've talked about that the last two quarters.

What -- why is there -- I guess maybe I can get to back up a little bit, why is there a prebuy?

Why are they concerned about not having enough or are you not being able to supply enough product on time.

Why do they want to build inventory, I guess?

Lori Koch^ Yes.

So a lot of it ties around the. Yes.

So a lot of it, Scott, is around the new fabs that are being put in place in China.

So last quarter, we had mentioned \$30 million in total, \$20 million of which was in Semi.

This quarter is another \$20 million for a total of \$40 million over the second half.

It's really the new fabs coming online.

So about half of the global fabs that are being constructed are in China, there's about seven of them in the logic space and three in the memory space. And as they bring their new fabs online, they prebuy to get through qualifications in the ramp.

So it's really a function of fact from the prebuy perspective that we had quoted.

Scott Davis^ That's what happens when you're not a tech analyst.

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I had no idea. Thank you.

Operator^ Your next question comes from the line of Steve Tusa from JPMorgan.

Stephen Tusa^ Just a lot going on today I guess.

Can you just talk about the trends you saw in exiting September and October, just for broadly the various businesses in the portfolio?

Anything move around materially?

Lori Koch^ No, minus the normal seasonality that you see in the quarter with the last month being the strongest primarily in the water space, there wasn't a lot of variability as we exited the quarter.

I mean as we go into the fourth quarter, we have the usual seasonal sweetness that we see primarily within the electronics space and the shelter space. And as you recall we had done on the last earnings call we had mentioned that the recovery kind of came early and the seasonality that you normally would see from 2Q to 3Q was a little muted.

Therefore, do you see the seasonality as you head into the fourth quarter, you have to compare the fourth quarter to the second quarter, and that's where you see that about \$100 million that we typically see between the electronics and the shelter space.

Stephen Tusa^ Okay.

Then in the W&P margins, anything unusual there, really strong margins in the quarter?

And anything going on there?

Any raw material relief or maybe price cost, something like that?

Lori Koch^ Yes.

We were really pleased with the margins that we saw.

It's a lot of operational execution that we've been driving across the whole company.

So we took a lot of restructuring actions earlier this year.

We're seeing the benefit of those -- we're driving productivity and operational excellence.

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We shuttered a couple of lines -- older lines in the U.S. in the safety business that are nicely impacting our broader profile.

So we're encouraged by the 26% plus that we posted in Q3.

Stephen Tusa^ So that should be able to leverage nicely as volumes come back, I would assume.

Lori Koch^ Yes.

Operator^ Your next question comes from Chris Parkinson from Wolfe Research.

Christopher Parkinson^ Just want to dig in a little bit more into the semi tech side of it.

I mean clearly, you have some benefits from some of the Chinese subs.

But -- can you just dig in a little bit more by product substrate in terms of the pad slurries?

It just seems like there's a bit of a bifurcation between some of the product categories versus others based on what evolving in the marketplace.

So any color there would be particularly helpful.

Lori Koch^ Yes.

I mean we saw strength across all the key semi technologies.

So within the CMP space with pads and slurries within the litho space, we saw really nice results in the cleans space.

So it's a combination of one, the market recovery from the destock that happened last year. Two, the strength that we have in China.

So we are a larger footprint in China than some of our peers, and that's where a lot of the new fab construction is going on a lot outsized recovery is happening.

Then our exposure to advanced nodes versus the legacy nodes and DRAM versus memory is driving our results.

So we had been up 50% plus in China.

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So that was a key driver of the overall sentiment results being up in the low 20% range.

Christopher Parkinson^ That's helpful. And just as a follow-up on the W&P side, you've got some things going pretty well but it still seems like the macro is overall a little bit sluggish.

So -- just digging to the water side of it, can you hit on kind of the drivers of the ultrafiltration strength?

It seems like China is kind of beginning to turn the corner. Just how we should ultimately be thinking about that?

Is this now back to normalization as we kind of get into 2025?

Or are there any other considerations we should be looking at?

Lori Koch^ Yes.

We should start to see activity more normalized now.

I think we're clearly past the worse of it.

We've seen sequential improvement from the first quarter to the second quarter.

We saw it again going into Q3.

And and we would expect we continue to see some sequential improvement as we move into Q4.

So overall, the business has definitely gotten back to where -- getting close back to where we used to be.

I would tell you, the activity in China has improved, the ultrafiltration activity, in particular, isn't just in any one region to call it out, but we're definitely seeing much better activity overall in water and have kind of passed the destock.

Operator^ Your next question comes from Vincent Andrews from Morgan Stanley.

Vincent Andrews^ Maybe just one more item of something that needs to turn the corner a little bit is the Kalrez® destocking. Are you sort of at the bottom of that?

And should we start to see that inflect?

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Lori Koch^ Yes. We're definitely at the bottom.

We actually saw a sequential improvement.

We're still seeing year-over-year headwinds.

So we expect the business to continue to stabilize and see recovery as we head into 2025.

So just a reminder of the Kalrez® end markets, it is largely semi-CapEx exposed.

So the long-term profile and expectations for topline growth in that business are very sound as there continues to be an expectation of mid-single-digit capacity expansions within the semi space.

Vincent Andrews^ Then I'd be curious to get your thoughts on interest rates.

I think we've all been sort of poised and waiting for these cuts and they're kind of starting to happen, but the the curve is not sort of behaving the way I think we all thought it would and that the back end has kind of stayed high and the front end has come down.

So maybe you could just talk about if rates do get cut, which parts of your businesses will benefit the most from the front end coming down versus which parts really need the back end to come down?

Lori Koch^ Yes.

I mean on the front end, it would be the construction market, primarily the North America residential space.

So we had mentioned in our 4Q expectations that they're a little needed in the shelter space because the rate cuts didn't happen quickly. And as we'll see what happens here at the next meeting the expectations through the fine cut again.

But I would say that front's our largest exposure with respect to positive using breakout slide down, more broadly, obviously the lower rate covers broader economic activity that will favor all of our businesses.

Operator^ Your next question comes from Josh Spector of UBS.

Joshua Spector^ I wanted to ask on not necessarily the spin timeline per se, but really, are there alternatives still being explored for any of the businesses, water or electronic outside of the spins be it the sale or RMT?

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And just if you are, how do you think about maybe achieving something there versus the spin timeline?

What would be more important to you?

Edward Breen^ Yes. No. It's a little simpler than that, Josh.

Our plan is to do the separation of both water and electronics, and we're moving very rapidly down that growth.

As we mentioned on the prepared remarks, we're talking to potential Board members already.

We making Board announcements for the companies and management announcements for those companies during the first quarter of next year.

Joshua Spector^ Okay. Clear enough.

On the core business, I wanted to ask about -- you had some comments about increased investments, increased variable comp.

Obviously some of that makes sense given the better operating performance.

But I was wondering if we think about the level of investment taking place now is that fully back to normal in that if we look at growth, the incrementals become higher as we look forward -- or are you still investing at a lower level given demand remains tepid.

Lori Koch^ Yes.

I mean we're not going gangbusters, right?

So we had some growth investments primarily within the electronics space as we look to continue to take advantage of the AI recovery.

We had mentioned the variable compensation headwinds and you can see in our approximately about from last year and variable compensation within an average of 50% payoff, so that would be as been as we had 2024.

We continue to keep button down until we're really confident that we've got recovery (inaudible) to make CapEx levels at the same levels where they were last year and we'll continue to expect to revise this down expect we can below the 5% level comp.

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And I wouldn't expect any outsized investments.

We continue to be really smart.

One of the key areas, I think that's driving the margin profile that we're seeing and we did take a lot of actions, especially on the plant fixed cost front as we saw the volumes decline last year, and we've done a really nice job keeping those out even as volumes have recovered.

So that's also driving a piece of our margin recovery.

Operator^ Your next question comes from John Roberts of Mizuho.

John Roberts^ Is China about 50% of the electronic sales and how much of that would be made in China for China as opposed to imported into China and might have some risk from some trade retaliation by China.

Lori Koch^ Yes.

So China is about 30% of electronic sales.

So about half of that is China for China and the other half does any come back out for global consumption.

John Roberts^ Okay.

Then how is advanced mobility looking with the slowdown in both EVs and ICE vehicles outside of China?

Lori Koch^ Yes.

So we continue to see nice performance within the BEV side.

We just got a really nice long term being with one of the large European OEMs within the bad space.

So it is muted to growth expectations just as everybody else is with respect to IHS revising down their expectations for total builds across the space, but we continue to be encouraged more broad based and longer-term transition.

Operator^ Your next question comes from Aleksey Yefremov of KeyBanc.

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Aleksey Yefremov[^] Interconnect, could you discuss two things: The share gains that you cite -- and then the AI-driven ramps, what products are you seeing ramping in AI?

What kind of applications.

Lori Koch[^] Yes.

On the AI side, in the packaging space within the interconnect business.

So we're seeing nice improvement there.

On the share gain side, it's also it's a function of being greater share of wallet with some of our customers as we expand beyond just the phones and some of the other devices that our key customers are producing.

So pleased with the results there.

We had mentioned, I think on the last call about a lot of the ICS driven by thermal management and packaging opportunities, and that continues to play out.

Operator[^] Your next question comes from David Begleiter of Deutsche Bank.

David Begleiter[^] Lori, E&I margins were above 30% in the quarter.

Is that level sustainable for the entirety of 2025?

Lori Koch[^] Yes.

We've seen nice margin growth in both segments, both E&I and W&P.

It's a little early to talk about specifics of 2025 at this point, but we are encouraged. There's not one time is driving that number, I'll say from that perspective.

So as long as you can maintain the top line numbers that we're posting and the productivity initiatives should stay in place that we're driving, and we should be in a nice position to get back to that more normalized margin profile for E&I.

David Begleiter[^] Very good. And just in Safety Solutions, what's driving the decrease in pricing?

Lori Koch[^] So I think it's important to keep in mind that when you look over the last couple of years, particularly in some select businesses, we did have price increases that were in the mid-

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teens, which more than covered our cost increase.

So it wouldn't be too surprising that we would give back a couple of points in order to maintain share as we go forward.

Operator^ Your next question comes from Frank Mitsch of Fermium Research.

Frank Mitsch^ Nice results.

I want to say on the price -- I want to stay on the pricing area. And E&I, price was down 1%. Volumes were very impressive, but price was down a percent. You have to go back to the second quarter of last year when you saw price flat since then it's been ticking down.

Can you expand upon what's driving the lower price and what your outlook is there?

Antonella Franzen^ You look specifically at E&I, to your point, typically, there is about a point of price giveback. A lot of it relates to new products kind of coming into the market and volumes going up.

So there's typically about one point in price historically what we see in E&I.

We would expect that trend to continue as we go forward.

Frank Mitsch^ Got you.

So as you're pricing new products, you're giving discounts to the customers?

Edward Breen^ No. You're getting price on the new product introduction, Frank, but you get paid a little bit of price gain on older products which are -- that's very typical of the electronics business like that.

Forget the last couple of years has been creating times with Covid and destock and all that, but that's typically been the model to a higher growth business more up in the mid- to high teens, but you give up about 10% of price.

Frank Mitsch^ All right. Understood. And just on the restructuring benefits, I believe the last time you mentioned it was going to be about \$115 million benefit in 2024.

Is that still a good number?

And any initial thoughts on 2025?

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Lori Koch^ Yes. Actually, that benefit number is a bit higher.

We got to our quarterly run rate of benefits in the third quarter.

So we are getting a nice impact to this year. There will be a little bit of carry forward as we go into 2025.

Operator^ Your next question comes from Mike Sison of Wells Fargo.

Michael Sison^ Nice quarter and outlook. Ed, a lot of the chemical companies thus far have kind of painted an exciting picture for the first half of '25 and maybe '25 in total.

As you've noted, your end markets are different.

So I know it's a little bit early to get specific outlook for 2025, but could you sort of give us your thoughts on how maybe semiconductors, electronics and some of the water and industrial businesses shape up for next year?

Edward Breen^ Yes.

I'll let Lori walk you through some detail just I don't mean this (inaudible), but to make a comment, we really worked the portfolio very differently than we were 5, 6, seven years ago away from chemical company into a multi-industrial.

I think you see that a lot of our end markets that we're in right now.

But I'll let Lori maybe walk you through some puts and takes.

Lori Koch^ Yes. No. There's no significant changes from the commentary we had provided on the last call about some initial 2025 expectations.

So from an electronics perspective, we continue to expect Semi growth to accelerate, really driven by the AI and the new fabs coming online. And just a reminder that the memory market and some of the more mature technology markets haven't recovered yet.

So that recovery is on the come as we head into 2025.

There's also on the interconnect side, continued utilization the PCB space, especially as you look for a refresh cycle within the AI space and consumer devices. Within W&P, we expect Tyvek® Healthcare to continue to recover.

As we had mentioned, we saw a sequential lift from Q2 to Q3 of 10%.

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We expect a further sequential lift into Q4 and then normalized buying has as we head into 2025.

We expect a more normalized demand environment within Aramids, we'll expect Water to continue to recover as well.

So no changes from what we said last year or last quarter with respect to 2025.

Operator^ Your next question comes from Patrick Cunningham of Citi.

Patrick Cunningham^ Are you still anticipating price givebacks in shelter in 4Q and maybe into 2025?

And what was the dynamic between positive growth in commercial construction versus resi?

And any sort of early view on a broad-based resi recovery into next year?

Lori Koch^ Yes. Given what we saw in pricing this year and as we're exiting the year, you would expect that you would have some price give back carryforward going into 2025.

But I think the one thing that you got to keep in mind is we still have to take a deep look at our costs next year relative to raws, logistics and utilities and that to determine if there's any pluses or minuses associated with them.

So I would expect that as we go forward.

In terms of the resi as a construction market, they are -- we are seeing a little bit less activity than what we originally anticipated.

As Lori mentioned earlier, when you look at kind of rates and where they are, there were a few rate cuts that were expected in 2024.

I mean we had one, so we had a little too late in the building cycle to really have an impact.

So as we go in the next year, I would say in terms of the construction markets, we would expect low single-digit activity, and I think that, that's kind of predicated on some additional rate cuts coming.

But we'll see what happens.

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Chris Mecray^ Our current midpoint of guidance in the fourth quarter seemed slightly less price impact than we saw during the third quarter.

Patrick Cunningham^ Understood. Very helpful.

Then just on consolidated W&P, I mean it seems you have easier comps on water, medical packaging.

Is most of that sequential EBITDA decline come from more typical seasonality on shelter and safety.

If you could remind us what was the \$25 million discrete impact from last year, and that won't repeat this year just for clarification.

Antonella Franzen^ Yes.

So the Q3 to Q4 in W&P would be your typical seasonality. Q3 tends to be the highest quarter and comes down a bit. In Q4, a big piece of that would be related to the shelter business as we kind of go into the winter months for W&P explicitly, we did call out about \$25 million of onetime items last year that were related to a land sale and some supply agreements that we had certainly benefits from, I would say.

Keep in mind that in totality, in Q4 of last year, we actually called out \$40 million of one-time items. The remaining \$15 million was in Corporate.

Operator^ Your next question comes from John McNulty of BMO Capital Markets.

Bhavesh Lodaya^ This is Bhavesh Lodaya for John.

Can you talk about some of the competitive dynamics around your electronic peers in China. China is bringing in a lot of new fabs, as you mentioned, but they also invest in kind of like a homegrown domestic supply chain. You mentioned gaining some market share, I'm not sure if that was in China as well.

But overall, how do you see this landscape developing over the next few years?

Lori Koch^ Yes.

We can continue to have a nice position within China.

I think our exposure in China within the semi spaces outside versus some of the peers.

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So we're about 30% in China, where some of the peers I think are left and that you're seeing that, that is fairly to play out nicely in our numbers as a lot of the bills are more concentrated there with respect to the global outlet.

We have a nice position with the local players.

As we had mentioned, we able to have nice positions with the global OEMs that are in China that are favoring our China results as well.

Operator^ Your next question comes from Arun Viswanathan of RBC Capital Markets.

Arun Viswanathan^ Just wanted to go back to maybe some initial thoughts on '25.

So this year, you showed -- it looks like you're showing pretty good mid-teens EBITDA growth in E&I, although you have been -- that's been offset slightly by some of that water destocking and headwinds.

As you look into next year, maybe if you adjust for the prebuy that you saw in E&I, would that kind of decrease maybe to like a high single-digit rate and then -- but maybe you could see some recovery in W&P, and so overall, you still expect maybe mid- to high single-digit EBITDA growth for next year?

Lori Koch^ So that's where I provided some color on the top line. That's where our expectations are.

I would say it's a bit too early to start commenting on EBITDA growth for next year.

We'll give more detailed guidance as we get on to the next quarter call.

But clearly, volume will be a driver as we noted this year, you would expect to have the continued benefits of our restructuring actions that we took this year to continue to benefit us as we move forward.

Arun Viswanathan^ Okay.

I understand. And just on that note then, assuming that you do see some continued margin growth, how should we think about free cash flow and maybe how you deploy that. Are there any significant extra CapEx projects in in the pipeline?

Or will you likely be using most of your cash for standing up the businesses?

And -- or could you potentially deploy more and return more to shareholders?

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Antonella Franzen^ Yes.

So I've been talking about free cash flow conversion.

As I mentioned for this quarter, we did have a really strong free cash flow conversion.

It was about 130%.

We're at 109% for the year, and we did know -- we do expect to be well above our target for this year.

As we go into next year, I would expect that we continue to have good free cash flow conversion. The teams have done a great job relative to managing working capital even while sales are increasing and we're now having a use of working capital.

As you think about our cash deployment for next year, given it is the year of the separation, the majority of cash will be used for our separation costs.

We did know last quarter on the call we do not expect to do any additional share repurchases this year.

I would say that applies to next year as well and no significant outsized CapEx that you should be expecting next year relative to this year.

Operator^ Your next question comes from Mike Leithead of Barclays.

Michael Leithead^ I think DuPont filed an ITC complaint last month around a legal Tyvek® imports, I guess first, is the issue you're seeing somebody else claiming and naming something to be tied back and it's not -- or did it name something else and the issue is they're using DuPont's proprietary technology?

Then just more broadly, how is the Tyvek® business performing today?

Lori Koch^ Yes.

So the ITC filing speak for itself.

We'll continue to defend our patents and our trade secrets.

So that's really all we want to say on that point. The Tyvek® business from a end market performance continues to recover nicely.

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A lot of the headwinds that we had saw throughout 2024 was related to medical packaging, and we've highlighted a few times about a nice recovery that we're seeing there, up 10% sequentially and up even further sequentially as we head into Q4.

So we're really encouraged by the rebound that we're seeing there.

Operator^ And your last question comes from Steve Byrne of Bank of America.

Steve Byrne^ Yes.

I'd like to ask another one about that ITC complaint. When did you start to see these competing versions of Tyvek coming into the states?

And is this across your broad platform?

Is this this Tyvek house rep?

Is this packaging?

Is this PPE?

Is it all of them?

And you're seeing this this competing version?

When did this happen?

And just curious on the timing of this.

Lori Koch^ Yes.

So I mean we had mentioned that the filing speak for itself as the public filing that can be red.

So we started seeing it in recent months, the release of our name in addition to some trade infringement or as you were seeing, which is what led us to the filing.

Steve Byrne^ Then maybe just one more across new DuPont any new products in development that you could be enrolling that could drive growth in new DuPont other than just the recovery in end markets.

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Lori Koch^ Yes.

So I have mentioned earlier that the really nice one that we saw in the battery adhesives space was one of the largest European OEMs.

So that was a nice win for us that can to solidify our position in the EV space.

We have a really nice growing position within healthcare.

So we closed the Donatelle acquisition in August.

We were actually out there as a leadership team and with the Board visiting the site and we're even more encouraged by what we saw with respect to cross-selling with some of the larger medical device layers as well as leveraging the really high-end machining capabilities that Donatelle has, not only our medical packaging businesses that are other parts within the New DuPont portfolio.

So really encouraged that, that space will continue to be a nice growth driver for us.

Operator^ There are no more questions. I will now turn the conference back over to Chris Mecray for closing remarks.

Christopher Mecray^ Thank you, everyone, for joining the call. And for your reference, a copy of the transcript will be posted on our website. This concludes the call. Thank you.

Operator^ Thank you, all for joining. You may now disconnect.