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DuPont Specialty Products USA, LLC

Second Quarter 2024 Earnings

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CORPORATE SPEAKERS:

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DuPont Specialty Products USA; Investor Relations

Lori Koch

DuPont Specialty Products USA; Chief Executive Officer

Edward Breen

DuPont Specialty Products USA; Executive Chairman

Antonella Franzen

DuPont Specialty Products USA; Chief Financial Officer

PARTICIPANTS:

Jeffrey Sprague

Vertical Research Partners; Analyst

Scott Davis

Melius Research; Analyst

Steve Tusa

JPMorgan; Analyst

Joshua Spector

UBS; Analyst

John McNulty

BMO Capital Markets; Analyst

John Roberts

Mizuho; Analyst

Christopher Parkinson

Wolfe Research; Analyst

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PRESENTATION:

Operator^ Thank you for standing by. (Operator Instructions) At this time I would like to welcome everyone to the DuPont Second Quarter 2024 Earnings Call. (Operator Instructions)

I would now like to turn the conference over to Chris Mecray.

You may begin.

Christopher Mecray^ Good morning. And thank you for joining us for DuPont's Second 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've 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 or results may differ materially from our forward-looking statements.

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

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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 that have been posted on DuPont's Investor Relations website.

I'll now turn the call over to Lori.

Lori Koch^ Good morning. And thank you for joining.

I'm excited to be here today for my first quarterly call as CEO and to be joined by Antonella, our newly appointed CFO.

We both look forward to partnering with Ed and our global teams to continue to drive value creation for all stakeholders.

We remain focused on driving results and demonstrating the performance potential of our combined portfolio while furthering the plans to unlock value through our previously announced separation.

This morning, we reported second quarter financial results ahead of our previous guidance, reflecting continued positive momentum led by broad-based electronics recovery as well as sequential improvement from all W&P lines of business.

We were very pleased with this outcome and by the continued focus and strong execution of our global team.

On a consolidated basis for the quarter, we saw improvement across all key financial metrics. Net sales and operating EBITDA were both up year-over-year and sequentially including a 17% pickup in operating EBITDA versus the first quarter.

We saw strength in the semi business driven by growth in advanced technology applications including AI.

We also realized continued recovery and new wins within consumer electronics market to drive both year-over-year and sequential growth for interconnect solutions.

We did see some favorable timing benefits within each of these businesses during second quarter relative to our expectations.

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In the W&P segment, we were pleased to see a better-than-anticipated sequential step-up in our water business in China as well as improvement in Tyvek medical packaging within Safety Solutions, which was in line with our expectations.

Our year-over-year growth in operating EBITDA reflects solid margin expansion with operating EBITDA margin improvement of 130 basis points, driven by favorable business mix, stronger production rates in our electronics businesses, and realization of restructuring-related cost savings, partially offset by higher variable compensation expense.

Second quarter adjusted earnings per share increased 14% year-over-year.

Strong cash generation and related conversion of over 100% was another bright spot for the quarter, highlighting disciplined working capital management and made a sequential sales ramp.

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

I also wanted to highlight that earlier this week, we closed our acquisition of Donatelle, a manufacturer of sophisticated medical devices.

We are delighted to welcome the Donatelle team to DuPont and are excited about this transaction, which will deepen and complement our expertise in medical device market alongside Spectrum, which we acquired last year. Donatelle will be managed within our E&I Industrial Solutions line of business alongside the Spectrum team.

Together, these offerings are expected to enhance our position as a partner of choice for customers in the high-growth medical device field.

I'll now turn the call over to Ed, who will provide a progress update on our planned separation.

Edward Breen^ Thanks. And good morning, everyone.

As seen in our second quarter results, we are well into the recovery phase from last year's inventory corrections in most key end markets and electronics may be setting up for a prolonged positive cycle.

Turning to the separations.

We've received very encouraging feedback since our May announcement of our intent to separate the electronics and water businesses and the formation of three independent companies.

We believe our investors broadly appreciate the value creation opportunity of having three industry-leading global companies with compelling growth opportunities and distinct investment propositions.

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As we shift gears to ramp up our separation activities, we have also worked to ensure our teams internally are highly motivated to remain focused on serving customers and driving business performance. That remains the top priority, and I'm confident our operating teams will continue to execute.

As you can see on Slide 4, we have already begun working on the rigorous project management processes necessary to ensure the separation work is executed smoothly.

Our teams have plenty of experience to rely on to ensure we stay within the 18- to 24-month timeline from our May announcement with all three companies well positioned for day one.

One key short-term milestone that has already been completed is the establishment of key work stream leaders as part of our integrated project management team under Lori and Antonella's leadership, along with myself. Key separation work streams underway include legal entity standup, IT separation and stand, our financials and talent selection. A current priority, along with our Board, is to complete executive leadership appointments for electronics and water along with corporate governance aspects including board appointments.

We currently anticipate announcements in early 2025.

We are also making progress towards the future capital structures of the three intended companies.

Specifically, during June, we redeemed \$650 million of our 2038 bonds and entered into new interest rate swaps that hedged the rate risk on our longer-dated maturities. To the extent that it becomes necessary to repay these bonds, the new swaps hedge the risk of higher debt repayment costs that would occur in a lower interest rate environment.

So while it is still early in the process, you can see that the separation work is progressing along, and we look forward to updating you as we move forward.

Before I turn it over to Antonella, I'd like to mention one of the updates detailed in our 10-Q which will be filed later today, specifically around the South Carolina MDL.

Now that the water district settlement has become final, the court has indicated a focus on the personal injury cases. Earlier this year, the court ordered cases not involving one of the eight medical patients to be dismissed by August 22 unless certain evidence is presented. About half of the 6,000 cases depending on June 30 are expected to be dismissed on that basis. They can be refiled over the next four years if those evidence requirements are later met.

We do not, however, expect any trials in 2024 in the South Carolina MDL.

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With that, let me turn it over to Antonella, who will provide additional details on our financial results and outlook.

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

I'm excited to be here today and honored to serve as CFO of DuPont. Turning to Slide 5.

I will cover our second quarter financial highlights in further detail.

Our second quarter results were clearly encouraging.

Volume recovery is a key driver of our improved Q2 financial performance.

Additionally, our ongoing commitment to drive productivity and operational excellence as well as continued savings from restructuring actions announced last November are also contributing to top line growth, margin expansion and cash flow improvement.

Net sales of \$3.2 billion increased 2% versus the year ago period, as a favorable portfolio benefit of 4%, reflecting the Spectrum acquisition was partially offset by a 2% currency headwind.

Organic sales were flat as a 2% increase in volume was offset by a 2% decrease in price. Higher volume was driven by broad-based growth in electronics markets within semi and interconnect solutions with year-over-year reported volumes up more than 20% and mid-teens, respectively.

These gains were partially offset by year-over-year declines in China within Water Solutions as well as Tyvek Medical packaging.

However, we did see sequential improvement in these areas, as Lori mentioned.

On a segment view, E&I organic sales inflected to grow 8%, while W&P organic sales decline moderated to 6%.

Organic sales in corporate decreased 5% versus the year ago period.

From a regional perspective, Asia Pacific delivered 3% organic sales growth versus the year ago period with growth driven by China, where organic sales were up 8%, led by strong growth in E&I.

In other regions, the North America was down 2% and Europe was down 7%.

Second quarter operating EBITDA of \$798 million increased 8% versus the year ago period as volume gains, lower product costs, savings from restructuring actions and the earnings contribution from Spectrum were partially offset by higher variable compensation.

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Operating EBITDA margin during the quarter was 25.2%, up 130 basis points versus the year ago period and up 190 basis points sequentially from first quarter.

Additionally, I am very pleased with our cash flow performance as we reported another quarter of strong cash generation and conversion.

On a continuing operations basis, cash from operations of \$527 million, less capital expenditures of \$102 million, resulted in adjusted free cash flow of \$425 million. Adjusted free cash flow conversion during the quarter was 104%.

Turning to Slide 6. Adjusted EPS for the quarter of \$0.97 per share increased 14% from \$0.85 in the year-ago period. Higher segment earnings of \$0.10 and the benefit of a lower share count of \$0.09 were partially offset by lower interest income of \$0.05, resulting from a reduction in cash on hand versus the prior year.

Other below-the-line items totaled a net \$0.02 headwind as a higher tax rate and depreciation were partially offset by lower exchange losses versus the year ago period.

Our base tax rate for the quarter was 26.4%, up from 23.7% in the year ago period, driven by certain discrete tax expenses as well as geographic mix and earnings.

Our full year 2024 base tax rate is now estimated to be at the high end of our prior range or approximately 24%.

Turning to segment results, beginning with E&I on Slide 7. E&I second quarter net sales of \$1.5 billion increased 15% versus the year ago period, as the Spectrum sales contribution of 9% and organic sales growth of 8% were partially offset by a currency headwind of 2%.

Organic sales growth of 8% reflects a 10% increase in volume, partially offset by a 2% decrease in price.

At the line of business level, organic sales for semi were up more than 20%, driven by continued semi demand recovery including AI-driven technology ramps as well as higher volumes for OLED materials led by new product launches. A resurgence of demand for leading-edge materials requiring higher content and accelerated buying in support of new fab capacity, primarily in China, also contributed to the volume increase in the second quarter.

Overall, semi fab utilization improved from the first quarter, with average utilization in the mid-70s.

Within Interconnect Solutions, organic sales were up low teens, driven by mid-teens volume gains, reflecting continued broad-based consumer electronics recovery, incremental share gains, and a demand benefit from AI-driven technology ramps.

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We also saw earlier-than-expected timing of orders within certain consumer electronics markets that helped volumes in the second quarter.

As expected, organic sales for Industrial Solutions were down low double digits, due primarily to ongoing destocking for Kalrez and biopharma markets.

On a sequential basis, sales for Industrial Solutions increased 9% during the second quarter including an improvement in Kalrez and biopharma.

Operating EBITDA for E&I of \$419 million was up 20% versus the year ago period, driven by volume growth and the impact of increased production rates in both semi and interconnect solutions, savings from restructuring actions and the earnings contribution from Spectrum. These gains were partially offset by lower volume in Industrial Solutions and higher variable compensation.

Operating EBITDA margin of 27.8% increased 120 basis points versus the year ago period.

Turning to Slide 8. W&P second quarter net sales of \$1.4 billion, declined 7% versus the year ago period due to a 6% organic sales decline, of which 4% related to volume and 2% related to price, as well as a 1% currency headwind. Within Safety Solutions, organic sales were down high single digits versus the year ago period on lower volumes, driven mainly by channel inventory destocking for Tyvek Medical Packaging.

However, we did see a sequential increase of more than 20% in this end market, confirming a recovery is in process.

Within Water Solutions, organic sales were down high single digits versus the year ago period, driven primarily by lower volumes resulting from distributor inventory destocking. Market conditions in Water Solutions also improved during the second quarter with net sales up 12% sequentially, which was ahead of our expectations and driven primarily by an initial recovery in China.

Shelter Solutions sales increased low single digits on an organic basis due to demand improvement in construction markets compared to the prior year period.

Operating EBITDA for W&P during the quarter of \$344 million was down 7% due to lower volumes and higher variable compensation, partially offset by the impact of lower product costs and savings from restructuring actions. W&P saw a nice step-up sequentially from the first quarter in both the top and bottom line with nearly 50% incremental margin.

Moving to our outlook on Slide 9.

For the third quarter, we expect net sales, operating EBITDA and adjusted EPS to increase sequentially to approximately \$3.2 billion, \$815 million and \$1.03 per share, respectively.

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For the full year 2024, we are raising our guidance for net sales, operating EBITDA and adjusted EPS.

At the midpoint of the revised ranges provided, we now expect full year net sales of about \$12.45 billion, operating EBITDA of about \$3.085 billion and adjusted EPS of \$3.75 per share.

Our full year net sales guide reflects about \$50 million of incremental foreign currency headwinds in the second half of the year versus prior guidance assumptions, which are expected to be partly offset by a sales contribution from the Donatelle acquisition, which closed earlier this week.

With that, we are pleased to take your questions, and let me turn it back to the operator to open the Q&A.

QUESTION & ANSWER:

Operator^ (Operator Instructions) And your first question comes from the line of Jeff Sprague of Vertical Research Partners.

Jeffrey Sprague^ Congrats. Whoever would like to take it.

I'd just love to drill a little bit more into electronics. A couple of things you said were quite interesting.

First, maybe, is there any kind of inventory rebuild that's going on in that market?

Or is this growth you think clearly indicative of what end demand is. And I wonder if you could just elaborate a little bit for us what in the context of DuPont AI-driven demand really means how significant it might be content per chip or anything that you could give to provide some perspective on that question.

Lori Koch^ Yes. Jeff, maybe to your first question.

So yes, the majority of the growth that we saw within the semi and ICS business was just market recovery, but there was probably about \$30 million of pre-buy, especially within Asia Pacific, as some of the new fabs come online.

So that drove the Q2 performance up a little bit, and then it will mute a little bit the ramp into Q3 and the back half of the year.

But overall, still really nice recovery in the electronic space.

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As we have noted, a lot of it is coming from the AI acceleration that's felt in both the semi and the ICS business.

In total, AI is about \$250 million of sales for us today.

So a lot of improvement to be able to drive growth there. Like I had mentioned, it's felt across the board in semi as well as ICS on the packaging and the thermal management side.

Jeffrey Sprague^ And also on the consumer side of electronics, I think there was a comment about orders being stronger.

Is there just some timing issues there. There's certainly some hope that there's a stronger iPhone cycle here into the holidays? Is that what you're starting to see? Any other color there would be helpful.

Lori Koch^ Yes.

So the \$30 million of pre-buy was probably about \$20 million in semi and about \$10 million of Interconnect.

So on the Interconnect side, it would be a little bit of a timing shift for some of the premium smartphone deliveries.

Operator^ The next question comes from the line of Scott Davis of Melius Research.

Scott Davis^ Lori and Antonella, it's good to have you guys leading the call here.

I wanted just to dig in a little bit on price.

I was expecting price to be down in E&I, but maybe not necessarily in W&P.

Is it mostly kind of a pass-through in like tieback? What are the -- I'm trying to picture why price would come down in Water, I guess, but perhaps it's just kind of the comps and how you had to raise price into that big inflation pickup at the beginning last year?

Maybe just some color there would be helpful.

Antonella Franzen^ Sure, Scott.

It's Antonella.

So just a couple of quick things that I would mention.

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I think it's important to keep in mind, particularly in W&P, we had some really strong pricing over the last couple of years. And I would say, particularly, there's a few businesses where our pricing over the last two years was about in the mid-teens that more than compensated for any of the cost increases that we saw.

So it's not unlikely that we would see a couple of points that we would kind of give back really more just so to maintain share.

So to your point, it's really the timing of the price increases that we had.

Scott Davis^ Okay. That's what I thought. And just going back to Jeff's question, and this is just -- I'm not an expert in electronic chemicals at all.

But is it the same product mix going into AI applications? I assume it's higher volumes per purchase, et cetera, but is it the same product?

Or are there variations of that?

Lori Koch^ Yes.

It's the same product.

It's just more content into the space because of the advanced nodes. And so the advanced nodes have more stacks and/or thermal management requirements that require more of our material.

So one rule of thumb that we point out is in the semi space.

MSI is a typical indicator of market growth and we would be 200 to 300 basis points above market growth because of the advanced node exposure that we have.

So they need more material to be able to produce the higher-end chips.

Scott Davis^ Okay. That makes sense. That's what I thought.

So thank you. Best of luck.

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

Steve Tusa^ Congrats everyone in the room there. Just on the guidance, what is kind of normal seasonality now for EBITDA? It looks like it should be up mid-single digits quarter-to-quarter, at least that's kind of what it did last year, but you're more in recovery mode, it feels like.

So unclear to me why it would only be up a couple of percent like you haven't guided.

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Lori Koch^ Yes.

I think to your point, we haven't -- yes, so I think you have to go back a couple of years to kind of see the more normal seasonality pattern that would exist. And so if you go back, it's probably more about \$50 million to \$100 million lift from Q2 to Q3 and then normally about a \$100 million decline from Q3 to Q4.

So this year's recovery is muting that. And also the prebuy in Q2 is muting that a bit from Q2 to Q3, so rising about \$30 million.

But our decline Q3 to Q4 is muted down to about \$50 million in the guide, because that's the continued recovery that we see across the board.

So seasonality is a bit challenging, to your point, whenever you're having market inflections, but that's what's into our number. Like if you take away the prebuy, then you would see more the normal seasonality.

Steve Tusa^ Okay. That makes sense. And then, Ed, you mentioned the change in the PFAS item there. Where do we stand on like State AG as well as just remind us what the other major moving items around PFAS actually are and how significant this South Carolina News is in the context of what's remaining here.

Edward Breen^ Yes.

Steve, there's really two buckets left.

Obviously we settled the big one on the water district cases. The two buckets left in the state AG cases and the personal injury cases. And I think the comment we made this morning on the PI basis, I think, is fairly significant because it reduces the cases from about 6,000 down to about 3,000.

And remember, this is not like some of the other settlements we did where we had a location and we settled because we used PFAS.

In this case, this is because of firefighting foam again.

So only 3,000 cases, and this goes back to what the plaintiffs also said in our settlement that we are probably responsible for 3% to 7% as a consortium group, and we're only a third of the 3% to 7%.

So I think you can wrap your head around a number that's pretty reasonable here.

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Steve Tusa^ And I guess for PFAS more broadly though, does that -- I mean for the other guys that are involved, the ones with the larger exposures, I mean is there any -- I would assume that it's kind of a similar impact to those guys as well.

Now -- is there any reason why judging how injured somebody actually is, is different from company to company when it just comes to the base injury, if you will?

Edward Breen^ No. I think the difference is just to distinguish that we didn't make firefighting foam so if you may, you're in a different little bit of a category, but we did not make it, which is, I think, why our percent is just 3% to 7% and we're a third of that.

Steve Tusa^ And then any update on (inaudible).

Edward Breen^ Pretty nice news.

Steve Tusa^ Any update?

Edward Breen^ I don't expect, Steve, any settlement this year but we are working hard to settle as much to the rest of the PFAS as we can by the time of the spin to get them out clean.

So we're working hard at it.

Steve Tusa^ Yes. You're always working hard.

So we appreciate that. Thanks a lot.

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

Please go ahead.

Joshua Spector^ I wanted to ask on W&P. Just within the guidance in the context the year-on-year comps get easier, so you're clearly expecting some growth there in the second half.

But it kind of seems like you're guiding things somewhat flattish from a sales and EBITDA perspective.

So I'd be curious, are you seeing continued improvement from destocking? Are you not?

And what are your assumptions around that?

Antonella Franzen^ Yes.

So this is Antonella. Just a couple of comments there.

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So as we mentioned, we did see a nice lift off of Q1 in both medical packaging in Tyvek as well as in our Water business, where we saw the biggest impact of destocking. As we move forward, we do continue to expect that we will see a little bit more lift in medical package as we go through the year.

For water, as we mentioned, we actually saw a bigger lift headed into Q2 than we were originally expecting.

So that will be pretty consistent.

As we head into the third quarter, we'll see a little bit more of a lift in the fourth quarter as well.

So overall, revenue is relatively flattish as we go into the second half of the year for W&P. And I would just keep in mind, there's probably a little bit of muted seasonality that we built in, in the shelter business, just given the soft resi market and just we're keeping a close eye on the macros out there. And so that's a little bit of a cautious view, I would say that we have built into our guidance currently.

Joshua Spector^ And I guess what about margins? Kind of the same line of thought there.

I mean that was a bright spot in the quarter here, getting back to kind of a year ago margins and volumes still down.

Is there something incremental negative on the margin sequentially? It seems like you're assuming that's a little bit lower versus what you did in 2Q.

Antonella Franzen^ No, actually, the margins in W&P are expected to be flattish to up a little bit actually as we head into the third quarter and expect it to continue to improve as we head into the fourth quarter as well.

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

John McNulty^ This one regarding the split.

So you've had the big announcement this past quarter.

I guess can you speak to interest that you may be seeing in some of those assets, sometimes there's not a lot of interest until announcements get made and then all of a sudden, people start lining up.

So maybe you can help us to think about that, especially around maybe the water business?

And if not, I guess I'd also ask, it does look like the M&A markets are heating up in a couple of areas, especially in water. Would you consider bolting on businesses ahead of the split to any of

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the other assets? Or is that just too much to deal with for the organization at this point? How should we be thinking about that?

Edward Breen^ Yes. Yes.

So your last point, no, we wouldn't do anything where we bolt something on the asset.

I don't want to get out in front of ourselves on any speculation of what's going on.

But as I said on the last earnings call John, if there is interest in the water business, we obviously will look at it and study it hard if there's a better path to creating value for our shareholders, we would clearly do that.

And I'll just leave it at that for now.

John McNulty^ Okay.

Fair enough. And then I guess just a question on the PFAS issue.

So look, you guys have been doing a pretty good job of cleaning up the liability so far. Earlier this quarter, we had the Chevron decision kind of get overruled by the Supreme Court.

I guess I'm wondering, what does that do in terms of how you think about the liability and the ability to put that to rest. Does it change kind of the strategy or how you're thinking about that, what that liability might mean going forward?

Edward Breen^ Yes.

So it kind of goes back to the whole superfund CERCLA issue. And to make it very clear, manufacturers of products are not responsible under circle. There's kind of four key categories, if you don't mind me telling you these for a minute just to clarify this issue. The responsible parties are current owners and operators of facilities where substances are located.

Past owners of facilities where hazardous substances were disposed, aggregators and generators, persons who arrange for disposal has a substance at a site, and transporters who transported it to those sites.

So by the way, there's a Supreme Court case on this, just to clarify it more. An entity will not be held liable as an arranger merely for selling a new and useful product if the purchaser of that product later and unbent to the seller dispose of the product in a way that led to contaminate it.

So I think it's pretty darn clear, as we've said all along that we don't have responsibility under this.

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John McNulty^ Great. Thanks very much for the clarity.

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

John Roberts^ On the spin-off, will we have to wait until the SEC filings for the income statements and debt allocations to the spin co -- or do you think DuPont will begin reporting more like a holding company and give us electronics and water, at least summary income statement, summary balance sheets before the SEC filings.

Lori Koch^ Yes.

We intend to report in the new structure prior to the Form 10 detailed filings would go out.

So we're targeting sometime early next year to have leadership appointments and then ultimately report on the new segments would be the future spin.

John Roberts^ Okay. And then will new DuPont report medical or health as a separate segment? Or is it going to continue to be split across industrial and safety? I think it's going to be over 25% of new DuPont, but it's a little hard to see in the current reporting.

Lori Koch^ Yes.

So we will most likely have three reportable segments for Remainco, one of which is health care, which would be the combination of Tyvek, Spectrum, the Liveo Biopharma business and now Donatelle given that acquisition closed. And the other two reportable segments would be a next-gen mobility, which would help all of our EV automotive exposure. And then the remaining would be generally the safety business and the shelter business and the rest of the printing businesses and industrial businesses, industrial solutions that aren't semi related.

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

Christopher Parkinson^ Just two quick questions on E&I. The first is, do you mind just kind -- as we enter into the second half, can you just offer a little bit more color on Semi tech just given some of your commentary around the broader strokes.

But if we dig in to pad slurries, you mentioned older materials in your PR as well as the PowerPoint.

Can you just help us conceptualize how we are trending into '25, '26 and perhaps into a larger upcycle?

Lori Koch^ Yes.

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So we expect nice high single-digit growth in the current construct of E&I as we head into 2025, a lot of that coming from the growth acceleration from AI as well as overall continued pickup within the consumer electronics space.

So we think we'll be from a utilization perspective on the semi front more in the high 70s as we exit 2024 overall.

It's more like in the low 80s in the advanced nodes in DRAM and then lower than that in the legacy nodes and some of the more legacy memory applications.

Christopher Parkinson^ Got it. And Lori, I have to bring it back a couple of years, because the follow-up is on ICS and specifically, Laird. When you originally did that transaction, you kind of mentioned AI as an optionality. And obviously you're kind of -- at the time talking about the shielding the thermal management portfolio there.

Can you just kind of help us think about the ICS business as it stands today versus kind of the legacy way of thinking around handsets.

It seems like there's perhaps a lot more going on under the hood there in terms of how we should be thinking about sustainable growth rates?

Lori Koch^ Yes.

So ICS, I kind of think about it in two big buckets as far as market opportunity is concerned.

One is like a powerhouse with respect to interconnect solutions and one is a powerhouse with respect to thermal management, and you see opportunity on the three lines of business underneath across both of those segments. And so the Laird acquisition has continued to play out nicely for us to drive opportunity across the ICS portfolio.

It's been really timely with the AI boost and the ADAS boost that's coming to have that thermal management business within our portfolio.

Operator^ Your next question comes from the line of David Begleiter of Deutsche Bank.

Please go ahead. All right.

Our next question comes from the line of Mike Leithead of Barclays.

Michael Leithead^ One on E&I, just strong results mostly across the board with the exception of maybe industrial and you called out the one headwind around kind of ongoing Kalrez destocking.

I just wanted to dig into that.

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So your volumes in your sense really consistent with end market trends for the product? Or is there any competitive dynamics impacting Kalrez specifically there?

Lori Koch^ No. No. There's no competitive dynamics.

It's really just the destock from the 2023 high volumes that went on.

So there's nothing competitively.

We did see sequential improvement in Kalrez as we had expected.

We actually do forecast of return to volume growth in Industrial Solutions in total in the back half.

So it was really just getting through the destock in Kalrez and also in the biopharma, which are both in Industrial Solutions.

Michael Leithead^ Okay. Great. And then just as a quick follow-up, maybe a question for Antonella on the cash flow statement this quarter.

It looks like cash flow from operations for discontinued operations was a \$400 million use of cash in the quarter.

Can you just help us understand that?

Antonella Franzen^ Yes.

So keep in mind, as Ed mentioned earlier, we did have the settlements.

So really, that's predominantly all the cash out of about \$408 million related to the MOU settlement.

Operator^ Your next question comes from the line of Frank Mitch of Fermium Research.

Frank Mitsch^ Nice result.

If I could stay on the cash flow side of things, Lori, when you were wearing your prior hat, as CFO. There was an expectation that the second quarter cash flow conversion might be lower than the first quarter in part with interest payments. And obviously it came in materially above or nicely above, I should say.

So can you speak to the factors behind that as well as what the outlook is in terms of cash flow generation?

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Lori Koch^ Yes.

So good memory.

I had signaled that usually, Q2 is a little muted because of the interest payment, which we did pay.

It was really a reflection of better working capital performance for the most part.

So we had sequential revenue, but we're really able to keep the working capital headwind.

So we've done a really nice job primarily on the inventory front around driving productivity across our businesses to get better at cash.

So we're still in that 90% target range for the year, we're at about 96% quarter-to-date.

So we're in good shape to be able to deliver against the targets that we have out there.

Frank Mitsch^ All right. Terrific. And then maybe just a second or two in terms of the corporate line.

Sales were relatively flat sequentially, yet EBITDA picked up materially.

Can you talk about the factors there and what your outlook is?

Lori Koch^ Yes, really, that was driven by a bit of our corporate expenses.

So there's always a little bit of timing from quarter-to-quarter.

So I would say when you take a look at kind of corporate expenses, we're probably a little heavy in Q1. a little light in Q2 and on average, kind of expected where we would typically be.

As you kind of look into the second half of the year, as you look at corporate as a segment, we did point out in the materials that we do expect overall less income coming from corporate in the second half of the year than we had in the first half of the year.

Operator^ Your next question comes from the line of David Begleiter of Deutsche Bank.

David Huang^ This is David Huang here for Dave.

I guess, first, on Industrial Solutions, when do you expect volumes to recover and turn positive here?

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Lori Koch^ Yes.

We expect volumes to be up low single digits in the third quarter year-over-year for Industrial Solutions and then more in the low double-digit range for the fourth quarter.

So we saw a nice inflection sequentially, and then we'll see a return to year-over-year volume growth in the second half.

David Huang^ And I guess just on the potential water sale.

I guess there is some interested parties there. And it sounds like PFAS continue to progress positively.

As when you talk to potential interested parties, what's the initial thoughts from them taking over some of the PFAS liabilities? And I guess is there a threshold there willing to accept?

Or is it, in general, still a big hurdle for them? And you think if that scenario were to play out, it will not involve any PFAS liability allocation at all?

Lori Koch^ Yes.

So we haven't had any conversations on selling the water business.

So our intent is still to spin. Each of the three spins will pick up their pro rata share of the of the PFAS liability per the trailing 12-month EBITDA underneath the sharing agreement with Corteva.

Operator^ Your next question comes from the line of Laurence Alexander of Jefferies.

Laurence Alexander^ Can you give a little bit more detail on the sequential momentum in Water & Safety Solutions sort of into Q3 and how much visibility here is the visibility improving in those two businesses or lead times improving?

Antonella Franzen^ For the water business, as we mentioned from Q2 to Q3, we do expect it to be relatively flat as we get into the fourth quarter we do expect a sequential increase in terms of the top line. And some of that is just driven by some project-related activity that we have there.

In terms of safety, we did talk about that's where our medical packaging business is within Tyvek, we do expect to see some sequential improvement there as well.

I think there, the growth will be a little less muted as we go through the course of the year because there's just a couple of little other puts and takes within that business.

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

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Michael Sison^ Nice quarter outlook. Ed, just one question. How do you expect the agencies to assign sort of industry codes for each of the entities of the spin maybe that would help investors assign the right multiple or comps longer term? And I assume you don't expect the entities to get assigned materials or chemicals.

But any color on how you think you can help them sort of make that right decision.

Edward Breen^ I'll just say it this way.

We are going to work it hard. The electronics is very clear where that should be, and we will work that issue.

I mean there are pure-play comps in those industries that there's only a couple of key competitors against some that have their marking in the water business is the same way.

So that will be worked.

Lori Koch^ Yes. And we'll work to get the Remainco SIC code changed as well.

So we've been trying for since we spun out of to get a change more to the multi-industrial diversified SIC code. And so I think we continue to make our case that we should not have the chemicals SIC code anymore. And so we'll work with that one as well.

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

Arun Viswanathan^ I guess just kind of curious on the guidance.

So you're raising it by looks like around \$110 million or so on the EBITDA line for the full year. The Q2 beat was around \$80-something million, so \$88 million.

So that remaining kind of \$22 million, it seems like there could be a little bit of seasonal drop off and maybe some moderation in growth.

I know you mentioned the pre-buy \$30 million, but anything else you'd call out there as to why you're not raising guidance maybe by a little bit more?

Antonella Franzen^ Actually, I would say, our raise in our guidance, when we kind of take a look at it is not only adding in the Q2 beat, but actually a bit more than that as well.

So kind of the way to look at it is if you look where our previous guidance was and to your point, kind of at the beat that we had in the second quarter of around \$150 million on the top and \$90 million on the bottom, I think you need to keep in mind that incremental headwind from when

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we previously gave guidance to the tune of \$75 million. And clearly, there's an EBITDA impact associated with that as well.

That is only partially offset by the Donatelle acquisition that's going in.

So on a true underlying basis, if you put FX and acquisitions aside, in addition to the Q2 beat, we are raising the top line close to \$100 million in the bottom line, around \$30 million or so.

Arun Viswanathan^ Okay. Perfect. And then I guess just as a quick follow-up.

As you look into '25, where are you kind of in that recovery maybe on E&I would you say like where do you expect fab rates to kind of utilization rates to end the year? And do you see those kind of continuing to move up as you move into '25?

Lori Koch^ Yes.

I think we'll end the year overall in utilization in the high 70s that will be different between advanced nodes and more legacy nodes.

So the advanced node should be in the low 80s and the more mature notes with would not quite be at the average.

So it sets up well for 2025 to get back to the more normal utilization patterns that exist in the semi space.

As I had noted earlier, we overall probably see high single-digit growth in E&I in total in 2025 with a lot of growth coming from continued acceleration with AI on both the data center side as well as on the ICS side.

Operator^ Your next question comes from Aleksey Yefremov. Next question comes from the line of Patrick Cunningham of Citi.

Patrick Cunningham^ Just on the Donatelle acquisition, first, maybe talk about the strategic fit there and even potential cross-selling opportunities where it's complementary in the portfolio? And then can you also help us size the transaction and how much earnings contribution we should expect in the second half?

Lori Koch^ Yes.

So we closed Spectrum earlier this week -- or Donatelle earlier this week.

We get up Donatelle nicely with our Spectrum acquisition that we're actually lapping a year on here, August 1. And so they've got nice exposure to some of the large medical device OEMs that Spectrum did not have.

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So there's a lot of cross-selling opportunity to come in there as they've also got some really nice machining and tooling competencies that will add to the portfolio.

In total, the revenue is about \$75 million from Donatelle.

It's got slightly better margins than what the Spectrum acquisition did.

So a nice addition there.

Antonella Franzen^ Yes. The only thing I would add is the \$75 million is a full year number, just to clarify.

Patrick Cunningham^ Yes. And then maybe just a clarification on corporate earnings.

I think there was a sizable step-up into 2Q.

I know you mentioned there were some expenses that moved around, but were there any areas of strength on the underlying retained businesses that helped 2Q? And how much lower should back half earnings be on the corporate line?

Lori Koch^ Yes.

So I would say in the second quarter, in addition to the timing of expenses, we did have a good strong margin performance in terms of the retained businesses as well.

As we shift into the second half of the year, as I mentioned earlier, we do expect the overall earnings in corporate to come down there is a little bit of pressure that we have in terms of our solar business that we have within the retained businesses.

So we have a little bit of earnings headwind related to there. And I mentioned earlier, a little bit of timing related to actual corporate expense.

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

Vincent Andrews^ Could I ask quickly on electronics. The timing differences that you called out in the quarter that were favorable to the quarter, are you seeing in your 3Q order book that those are indeed shifted to 2Q? Are you just assuming that? And then we'll see how the quarter plays out.

And then separately, Ed, if I could ask you on the PFAS on the personal injury cases, just a little bit of clarification in terms of it sounds like we'll go from 6,000 to 3,000 cases.

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But has that case count been increasing? Or has it been static around those levels, firstly? And then secondly, on your comments that DuPont is sort of, I think you said 3% to 6% or 3% to 7% sort of the assumed liability.

Is that to mean that, that would be your sort of exposure to any payout should there be any?

Or is that your exposure to the amount of cases?

And lastly on that, how do you expect this to proceed in terms of will something actually go to trial? Will it be the typical MDL where you pick one and they pick one and you see what the outcomes are and then maybe you try to settle? Or is there a path to settling ahead of time? Or just sort of what you think the process is going to be?

Edward Breen^ Yes.

So the cases have crept up over time, but the slope has obviously changed, come down. And remember, it's predominantly firefighters.

It's not other individuals.

So the drop will be at least down to 3,000 of cases.

And I'd just say, overall, because it's firefighting foam, it goes back to the last settlement we did where we never made the firefighting foam, but we had one surfactant that went in for 10 or 11 years.

So net-net was determined that the exposure of Corteva Chemours us was in the 3% to 7% range. And so I think you can do the math like we were able to do when we settled the water cases and kind of get this into a certain box. And remember, we're only a third of 3% to 7%, as I mentioned earlier.

And Mike, just to your kind of one of your last points.

Obviously we always try to settle these as a class, like we did the water cases, and we'll work hard to do that. And I said we would love to clean a lot of this up before the actual separations occur.

Lori Koch^ Yes. And maybe on your order question.

So our order book is trending alongside the guide that we had given.

So we feel like we're in good shape there.

Operator^ And our last question comes from the line of Steve Byrne of Bank of America.

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Steve Byrne^ Yes. Your cost of goods were down 2% in the quarter.

Can you provide a little more detail on that, such as were raws down more than that? Your volumes being a little higher might suggest that raws were down more than that.

But more importantly, where do you think that cost of goods year-over-year is likely to go as we move forward?

Antonella Franzen^ This is Antonella.

So a couple of things that I would mention there to keep in mind.

So one, obviously we are seeing a bit of an impact from deflation of cost that's in there.

Secondly, I would also mention in terms of restructuring, we took a lot of actions as we announced the program last year towards late November, some of those actions have actually been accelerated.

So we are seeing even more of a benefit this year than we were originally anticipating.

So as you may recall we were first expected we'd have about \$100 million of restructuring savings in 2024.

We now expect that to be closer to \$115 million or so for the year.

So that's also helping from a COGS perspective and kind of bringing our costs down.

Steve Byrne^ And then you mentioned on Slide 14, a lot of products in development. And you mentioned your water business has some DLE opportunity. Just a question on that.

Is this one lithium project at a temperate later to that could be many, many years from now? Or is there some breadth to this opportunity that you see in lithium?

Lori Koch^ We continue to see a nice opportunity.

We're actually investing in a facility in Europe to be able to take advantage as well from a production perspective.

So it's still a little early.

I mean the potential market opportunity on the low end is probably in the \$250 million range as we position ourselves as a component supplier into the space.

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Operator^ I will now turn the call back over to Chris for closing remarks.

Christopher Mecray^ Thank you for joining the call today.

As a reminder, our materials are posted on the website including the transcript from today's call. Thank you for joining. Good day.

Operator^ Ladies and gentlemen, that concludes today's call. Thank you all for joining.

You may now disconnect.