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DuPont de Nemours, Inc. (DD)

Business Update Call - Water Solutions

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the DuPont webcast. Please be advised that today's conference is being recorded. At this time, I would like to turn the conference over to Chris Mecray, Vice President of Investor Relations.

Chris, please go ahead.

Christopher Mecray

Vice President-Investor Relations, DuPont de Nemours, Inc.

Hello, and thank you for joining this morning's line of business teach-in with Leland Weaver, President of DuPont Water & Protection. Leland will provide an overview of the DuPont Water Solutions business, one of the three businesses within the W&P segment. We've prepared slides to supplement our comments during today's webcast, which are available on the investor section of our website. We hope that today's teach-in provides additional detail on the underlying technologies for the Water Solutions business, as well as our views on the market. We will now open with prepared remarks and then we'll move to Q&A. We're targeting a total of approximately 45 minutes for today's event.

Before we begin, let me remind you that during today's prepared remarks, as well as the Q&A section, we will make forward-looking statements regarding our expectations or predictions about the future of the business and the water technologies market. Because these statements are based on current assumptions and factors that involve risks and uncertainties, our actual performance and results may differ materially from the forward-looking statements. Please ensure to read the forward-looking statements disclaimer contained in the slides.

Turning it over to Leland.

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

Thank you, Chris, and good morning, everyone. It's great to be with you today, as I'm really excited to have this opportunity to begin our series of teach-in events for the Water & Protection segment within today's overview of Water Solutions.

This business is well aligned with secular growth trends that combine leading edge innovation, global scale and deep customer relationships. According to the United Nations, water scarcity affects more than 40% of the global population and is projected to continue to rise. Presently, 2.2 billion people still lack safely managed drinking water, including nearly 800 million people without access to basic drinking water. More than 80% of wastewater resulting from human activities is discharged back into the environment without any pollution removal.

By 2030, the world's population is expected to reach 8.3 billion, which will require 30% more water. Nearly half the global population could be facing water scarcity. Demand could outstrip supply by 40%. By 2050, manufacturing's water demands are expected to increase by 400%. It is imperative that the water needs of the world be solved. Our Water Solutions business supplies critical components and systems to generate clean and fit for purpose water across a variety of market segments and applications.

In fact, globally, our technologies process approximately 50 million gallons of water every minute. We have one of the most comprehensive portfolios in the water technology industry with 2021 net sales of \$1.4 billion. We are a leader in each of our established technology portfolios and have a robust pipeline of emerging high growth technologies, some of which were recently added through acquisitions.

The Water Solutions business exemplifies DuPont's purpose of enabling the world with essential innovations to thrive. Today, water challenges exist all over the world in countries of all income levels. There is growing demand and critical need for access to clean water as a significant number of people live in water stressed areas, which will only be exacerbated by climate change. Evolving regulations continue to intensify and organizations are challenged in achieving their sustainability objectives. Many major brands have committed to becoming water neutral or positive by 2030, which underscores the critical need for advanced purification and separation technologies to help them achieve these goals as the easy opportunities for improvement in water footprint have already been captured.

With 80% of wastewater going untreated today and increasingly stringent monitoring protocols on the horizon, we see a tremendous opportunity for the deployment of our multi technology portfolio to help address wastewater challenges as well. Collectively, these global challenges are driving a critical need for us to be smarter about how we use water; using water in a more optimized way advances the world closer to achieving the United Nations Sustainable Development Goal number 6 of providing clean water for everyone.

Our vision is for all 7.8 billion people on earth to have access to safe, clean drinking water, for industry to have the necessary water to make the products on which we rely, and for us to optimize the circular nature of water, all the while making purification more sustainable and energy efficient. We strive to collaboratively solve global water challenges for purification, conservation and re-use to shape a water optimized world. In a water optimized world, water is affordable, accessible to all, adaptable or fit for purpose, abundant and able to be reused and automated using digital technologies to optimize system performance. Achieving this higher level of water optimization, we will make great strides in improving water equity for all.

But we know we can't fix on our own. We need to join forces with our customers, our suppliers, NGOs and many other stakeholders to achieve this vision. We're engaging in partnerships with these various stakeholders in

creative ways that combine our technology expertise with their core competencies to implement impactful solutions that are sustainable and can give our communities and employees purpose [ph] and pride (00:05:44) while providing unique market intelligence and growth opportunities.

Turning to slide 2, we have an exciting portfolio that has led the water technology industry in some cases dating back over 70 years, with the roots going back to Dow, Rohm and Haas, and [indiscernible] (00:06:01). As I previously mentioned, our business is well-aligned with secular growth trends that combine industry-leading innovation, deep customer intimacy, and global scale.

Our Water Solutions business provides the broadest end-to-end portfolio of water treatment and separation technologies for the production and purification of the most commercially important products around the globe. The ion exchange and reverse osmosis technologies, where we hold leading positions in the market, comprise about 80% of the portfolio, with ultra-filtration rounding out the rest. It's worth noting that over the past two years, we have significantly improved our market position in ultra-filtration through acquisitions of MEMCOR and Inge, which expanded our geographic reach and broadened our applications.

At the core of Water Solutions is our key strength in purification and separation science that can be applied through innovation to solve some of the world's toughest challenges. We help make drinking water safer and cleaner for homes and communities. Industries and markets operate more effectively and sustainably and make water scarcity challenges more manageable.

At the bottom left of the slide, you can see the mix of high growth segments in which we participate with the industrial segment representing about 60% of our revenues, followed by life sciences and specialties, with municipal and residential and commercial, accounting for the balance. I will provide additional color on these key markets in a few minutes.

Over on the right, you can see that the Water Solutions business has a large global footprint. With state-of-the-art research facilities, application labs, manufacturing plants, and approximately 2,200 people globally, our business is optimized for regional intimacy. From a geographical standpoint, over half of our revenues is generated from the Asia Pacific region, followed by the Americas and Europe. We anticipate strong growth to continue in emerging economies, particularly in Southeast Asia and the Middle East. This footprint affords us a unique ability to commercialize world-class science with highly local implementation and deep customer relationships.

One thing I would like to point out is our Global Water Technology Center in Tarragona, Spain. This is a one of its kind in the industry. This industrial scale testing and piloting facility has its own analytical labs that serve to simulate the customer environment for a variety of water sources such as surface, municipal wastewater, industrial wastewater, and groundwater. It enables us to translate innovations from bench scale into industrial commercial scale, giving our customers confidence and the ability of our products to perform in environments like theirs. Innovation is critical to our customers, our industry and our business, which is why we invest 3% to 4% of our revenues back into R&D.

We have a strong global technology infrastructure to support the operation of our innovation engine to address our customers' evolving challenges, moving in the new market spaces and further differentiating our business versus competition. I will describe in detail our innovation portfolio approach in a few minutes.

Moving to slide 3, you'll see the strong financial profile of our Water Solutions business, as well as the key elements of our growth. The Water business has a history of consistent growth above 2 times GDP that is well

correlated to the trends and increased water treatment across our target segments. Our compound annual sales growth on an organic basis from 2019 through what we expect to achieve this year is approximately 7%.

Over time, we expect the strength of our portfolio and innovative solutions to consistently outperform the market. Our above market growth is the result of applying our purification and separation technology leadership to targeted market backed segmentation. We focus on those applications where we can differentiate value and win against the alternatives. Our strong technology brands such as FilmTec and AmberTec, combined with a solid track record in providing highly reliable performance, opens doors and enables us to work closely with customers to understand their specific challenges, including their waste treatment and specialty separation requirements, and then develop tailored integrated solutions that meet real application needs that can then be scaled to similar challenges that other customers.

Slide 4 shows an overview of our industry leading technology portfolio, along with key customer segments that are Water Solutions business serves. Our portfolio is one of the most comprehensive in the water technology industry, combining leading positions of core separation and purification technologies such as ultrafiltration, reverse osmosis and ion exchange with emerging high growth technologies such as closed circuit reverse osmosis, membrane bioreactor, membrane aerated bioreactor and membrane contactors.

This expansive, differentiated portfolio embodies our transformation from a technology provider to a global technology solutions partner. We deploy this holistic multi-technology toolkit along with our extensive industry knowledge and problem solving knowhow to address our customers' most significant complex water challenges. From a market perspective, our core technology portfolio has a strong replacement base greater than 70% that is predicted for years to come, which reduces our business cyclicality while our new technology offerings position the business to effectively tackle new problems and new markets that will increasingly affect industry and communities. Further, on account of our expansive solution portfolio, our commercial teams had a differentiated opportunity to upsell by extending multiple portions of our portfolio to solve the customers' needs.

A number of our key customer segments are shown in the lower half of the slide. Our technology solutions are deployed across many different industries, ranging from textiles to pharmaceuticals and from heavy industry to home drinking water. Megatrends such as urbanization, climate change, health and wellness further drive the need for efficient, effective application of our technology solution portfolio as we collectively seek to address our eminent water needs across the industries and communities. As we see in the Water business, the science is global, but the solutions are local, and each of our 3,000 customers need a different solution [indiscernible] (00:12:30) our solutions against the spectrum of water from extremely dirty wastewater on the left to ultrapure water on the right. Through our acquisitions of MEMCOR and OxyMem, we have entered the growing wastewater treatment space with biological treatments that are superior in terms of energy use and footprint.

Moving to our ultrafiltration portfolio, you can see we now have three options, IntegraFlux, MEMCOR and inge. This part of the portfolio removes dangerous viruses and bacteria from water, and it's also an effective pre-treatment for reverse osmosis, which is aimed at removing salt and other dissolved solvents. Towards the far right, you can see our ion exchange resins Ligasep and Electro-deionization for final polishing steps to remove very specific ions from water, such as boron or arsenic. By putting these separation and purification steps together, our customers can turn dirty wastewater into ultrapure water or anything in between as purpose fit for the intended use.

As highlighted on slide 6, key megatrends in the four key market segments are driving growth, industrial and desalination, life sciences and specialties, municipal and residential and commercial. Growth in the estimated \$8 billion industrial and desalination market is underpinned by robust demand for clean water from various sources,

including increased pressure through regulators, consumers and investors to improve water footprint, quantity and quality in order to maintain license to operate and reduce risk of disruptions and production, climate events and water scarcity. An emerging trend in this space is circularity, where valuable materials such as solvents, process aids or salts are pulled out of waste streams and reused in the manufacturing process, while clean water can be recirculated into the process or repurposed. We're able to leverage technologies across three product lines, reverse osmosis, ion exchange, and ultrafiltration within the industrial market.

The \$2 billion life sciences and specialty market uses separation and purification to make medications safer and more effective, support manufacturing, and commercialize products for bioprocessing, including food, feed, biopharmaceuticals and cosmetics, as well as separating nutritional products in the food and beverage industries, including dairy, juices and sugars.

The municipal market is estimated to be about \$2 billion in size. The municipal segment demand is driven by increased water reuse to take reclaimed water and treat to potable water quality levels for reintroduction to aquifers, expansions to accommodate growing populations and upgrades of aging infrastructure to comply with regulations and increased need for water quality.

The \$1 billion residential and commercial markets are primarily aimed at Asia Pacific, as those markets are high growth for over and under the counter water treatment, including reverse osmosis. We also use expansive innovation as one of the main growth levers of the Water business. We drive innovation through development of new products, new applications of existing products, process innovation to improve productivity and business model innovation powered by sustainability and digital platforms.

In the key market segments that we serve, we use customers' insights, respective market megatrends and UN Sustainability directives to help shape our innovation investment decisions. We have about 60 to 70 innovation programs which support our business growth targets. The top innovation programs listed here represent our expansive innovation portfolio from higher quality drinking water purification membranes and more sustainable industrial water solutions to high efficiency wastewater treatment to new specialty offerings for nutrition, biopharma, and oil and gas markets.

One final point to highlight on slide 6 is that many of our water technologies can be extended to non-water applications, such as sustainable lithium mining and membrane chromatography for bioprocessing. These cutting edge applications are expected to provide significant upside on top of innovation in the core energy agency spaces.

To bring our technology to life, on slide 7, we show how our life sciences and specialty and residential commercial segments add value in a hospital setting. This is just a glimpse into the multitude of customer segments we play in, including home drinking water, pharmaceutical manufacturing, hotels, car washes, et cetera.

Starting from the top left, we have many purification and separation products that go into drinking water solutions such as softeners and countertop or under-the-sink water filtration units. Our ion exchange technology is also applied to home water pitcher filters. For pool water purification in the lower left, you see our membrane technology is being highlighted to ensure removal of any potential harmful viruses or bacteria. Our ion exchange and nanofiltration technology remove hardness and organics from hot water systems. Over to the right, you can see our FilmTec Hypershell highlighted for food and beverage processing. Hypershell is a heat sanitizable reverse osmosis element designed to perform reliably for concentrating, fractionation and purification of milk components, especially valuable milk proteins. Our ion exchange technology is used a debitter orange juice.

Next, you can see our Amber series ion exchange products help in drug synthesis. Our FilmTec membranes are even used for medical water for the purposes of dialysis. These are special heat sanitizable reverse osmosis elements that meet the stiff regulatory requirements for this application. And finally, in terms of drug formulation, our Duolite and AmberLite ion exchange resins are used in separation and purification processes in drug manufacturing.

Turning to slide 8, our product portfolio is used in many applications in industrial and municipal settings. For example, water treatment is needed in practically every manufacturing process, and for the utilities that provide water and steam to those same manufacturing processes. If we start in the upper right of the slide, process water often needs softening, demineralization, dealkalization, and carbon removal, which is handled by our ion exchange resins.

For many industrial processes, dissolve gases such as oxygen and carbon dioxide must be removed from water. Control of these gases is an integral part of producing high quality water used in the power generation, industrial manufacturing and semiconductor industries.

Next, in the middle of the slide, you can see that our newest ion exchange innovation B-Free, which integrates ion exchange and a design vessel to remove biologics as a pretreatment for reverse osmosis. This pretreatment reduces operational costs by extending the life of reverse osmosis.

On the wastewater treatment side of things, a number of our technologies can be integrated into an overall system at large scale to remove bacteria and viruses all the way through production of good tasting, safe drinking water. Removal of salt through desalination can be achieved with a number of our products, including ultrafiltration and closed circuit reverse osmosis or CCRO systems as well as conventional RO systems that use DuPont FilmTec membranes. Desalination is increasingly being used in industrial applications as competition increases for conventional water sources. These same products are also increasingly important in municipal installations to generate clean drinking water, particularly in coastal cities where other water sources are becoming scarce. Finally, in the lower portion of the slide, incoming water for production processes typically need some pretreatment. Our ultrafiltration and reverse osmosis portfolio, including CCRO, is very effective for pretreat industrial water to ensure process reliability.

Slide 9 shows a few examples of companies from a variety of industries that are aiming to achieve water positive and other bold water goals as many companies have already addressed the low hanging fruit such as water efficiency opportunities and basic conservation. New goals are aggressive and many Fortune 500 companies need to plot to help them with advanced water technologies for challenges such as circular water, materials recovery and energy reduction and water treatment. Given this trend of commitment to ambitious water goals, there are challenges that remain to be solved. Current partners lack the ability to ideate on a solution together, pilot, develop and scale. Our global science with local technical expertise and commercial capabilities for implementation is a necessity for multinational companies with operations all over the world. Action on sustainability goes way beyond regulatory compliance, expectations from customers, employees and investors are increasingly impacting an organization's need to make bold moves and accelerate sustainability.

DuPont is engaging with sustainability decision makers at major brands with front end consulting, piloting and solutions options. Values captured through developing the solution and scaling it across the enterprise and applying it to similar challenges within other companies in the same industry. We amplify these engagements by partnering on collective action. For example, with the Water Resilience Coalition as a part of the CEO mandate that Ed Breen signed last year, we're also shining a light on water resilience and opportunities in cities with the City Water Index that we sponsored with the Economist Impact.

Additionally, we recently announced our partnership with water.org to amplify our impact on providing access to those who don't have it. In fact, we are currently working closely with water.org on a model that takes advantage of our technology expertise and products to bring projects that provide capabilities for underserved communities to create and manage their water future.

In closing, there are few takeaways on slide 10 that I'd like to leave you with. First, our industry leading technology portfolio enables our ability to solve customers' most critical high value water challenges across many different industries and end markets.

Second, we are a mid to high single digit secular growth business that is characterized by more than 70% replacement sales, and we generate 60% of our revenue in emerging markets. With this foundation in our portfolio of leading edge technologies, we are poised to continue to deliver strong financial results that outpace the market.

Third, our expansive innovation engine differentiates us from our competition, allowing us to gain additional wins as we enhance our solution portfolio. We'll continue to extend into high value adjacencies organically and through targeted acquisitions.

Fourth, our global reach coupled with local knowhow and execution, create strong customer relationships. Through these relationships, we collaboratively solve global water challenges for purification, conservation, and reuse to shape our vision of a water optimized world.

Finally, the water technology industry is poised for growth and investment, driven by increasing needs for reliable water treatment and for specialty separations and purification. These challenges are increasing each day through more and more regulation and expectations of all stakeholders to drive progress on sustainability goals. DuPont Water Solutions is well-positioned to capitalize on these trends, and I couldn't be more excited for the future of our business.

With that, let me turn it back over to Chris to open the Q&A.

Christopher Mecray

Vice President-Investor Relations, DuPont de Nemours, Inc.

Thanks, Leland. Let me remind you that our forward looking statement disclaimer applies to both prepared remarks, as well as the following Q&A. We will allow for one question and one follow-up question. Operator, please provide the Q&A instructions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question today comes from Scott Davis with Melius Research. Your line is now open.

Scott Reed Davis

Analyst, Melius Research LLC

Q

Hey, good morning, everybody. Thanks, Leland, for doing this, and welcome Chris to our world again. Can you just give us a couple other metrics, perhaps, maybe just a sense of gross margin profile, even if you just want to give it compared to kind of the DuPont average. But – and any other metrics you can give us around gross margin, or capital intensity, anything related to that be helpful?

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah. Absolutely, Scott. So, thanks for the question. So, let me start with CapEx, but I'd say and you've heard us say publically as it relates to CapEx that we want to be somewhere in the 4% to 5% of sales for CapEx. For W&P, in particular – or for Water in particular, I should say, we're around that 5% level. And so we're kind of spending at depreciation for the most part, Scott. And so, what I'd say is that we anticipate to kind of stay in that range, that may tick up slightly as we look to bring new capacity online, so maybe it goes to 5.5% or 6%. But typically, we would look for it to be in that position. I'd say, from a gross margin perspective, our gross margins obviously well north of 30%. And so, I feel good about where we are there. I think there's some opportunity for us as we look at productivity in our plants to continue to drop gross margin expansion. I think another area there that will be critical for us is just around pricing, right. So if I take a look at kind of how we did last year as it relates to pricing, I think the team is kind of steadfastly focused on making sure we stay ahead of some of the dynamics that we're seeing in the marketplace right now. And so, from a 2022 perspective, I feel good that we'll get ahead of some of these price cost dynamics.

Scott Reed Davis

Analyst, Melius Research LLC

Q

Okay. And then just a quick follow-up...

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Maybe one other thing, Scott, that I would just give you just as it relates to R&D, right. So we talked a little bit from an R&D perspective, 3% to 4% of sales again, I think that number, when you take a look at how that compares to others in the space is right in line, if not slightly favorable to what others are doing there.

Scott Reed Davis

Analyst, Melius Research LLC

Q

All right. That's good context. What – as far as how you sell or how do you go to market, what percentage is distribution versus direct?

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah. Great question, Scott. So I think if you take a look today about 45% of the business is through distribution and then 20% to 25% call it is direct, right. And so that would leave the balance of the 30% to 35% as sales to OEMs or new builds, is how the break down is today.

Scott Reed Davis

Analyst, Melius Research LLC

Q

Okay, super helpful. I'll pass it on. Thanks. Good luck, Leland. See you.

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah, thanks, Scott.

Operator: [Operator Instructions] And as a reminder, we ask [ph] that you for (00:27:55) one question and one follow up. Your next question comes from Jeff Sprague with Vertical Research. Your line is now open.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

Thank you. Good morning, everyone. Leland, good to hear your voice. Hope you're doing well. Just another question on go to market, you mentioned systems and systems performance a couple of times. Is there an integrated, kind of pan DuPont sale that's going on here, maybe explain a little bit how you might work with automation providers or others in these more complicated systems?

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah, no great question, Scott. So it's kind of a multi-part answer. The first part would be, if you take a look at some of the acquisitions, the recent acquisitions that we made, the intent of some of those was to get more exposure to that system's value chain, so to speak, right. So when I think about what we've done from an ultrafiltration perspective, where we made two acquisitions there as you know. And I'd say the MEMCOR acquisition that we made there helps us get further downstream as it relates to systems. I'd say the other one, as I look at is the DesaliTec, the closed circuit reverse osmosis acquisition that we made really positioned us to go further downstream and start to work with some of those customers. Now, that's not to say that we won't continue to work with some of the system integrators as well, because we will certainly do that, but it helps us get further downstream.

Now, just as it relates to the second part and thinking about how you can work with some of these systems integrators, we think that one of the areas of opportunity for us as we move forward is in the digital arena, right and what we can do in order to drive system improvement and a healthy systems run more widely using digital. And so, I'd say, we're in the early stages of that right now from a water perspective within our business, but we think there's a lot of potential upside there down the road.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Q

And I wonder if you could also just address, you gave us the market size here, I guess this is where you play, right, this roughly...

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

Yeah.

A

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

... [ph] \$13 billion (00:29:54). So, 10%, 11% market share as you define it now. What is the scope to kind of expand the available sort of market relative to maybe technologies that you don't currently have or just things you're not addressing from a sales channel or [indiscernible] (00:30:15)...

Q

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

Yeah. I think that's a great question, Scott (sic) [Jeff] (00:30:16). So, if I take a look, historically before the acquisitions, I'd say our addressable market was probably somewhere in the order of \$5 billion or so, right? And so, when you think clearly from a technology perspective as I said in the prepared commentary, we have leading positions in RO, ultrafiltration as well as ion exchange resins. And so, what the acquisitions did was give us a broader swath, so to speak, as it relates to addressable market. I think when you look at each of those respective technologies though from an RO, IER and UF perspective, I think our market shares are well north of that 10% number that you talked about, right. And so, as we look to move forward, I think one of the areas for us is where do we want to play in the value chain, right, and what types of technologies do we want to have. At our core, we're a solutions or a purification and filtration solutions provider. So, there are other opportunities for us to augment the portfolio and go into different adjacencies. I think we're exploring that.

A

And then when you take a look at the overall addressable market as it relates to water, when you start to include things like pumps and bowels and disinfection, that market goes well north of \$150 billion as it relates to the total addressable market, right. So what we want to make sure we're doing is staying focused on the key areas where we innovation and technology can help to draw differentiation, and those are the areas that we'd like to play.

Jeffrey Todd Sprague

Analyst, Vertical Research Partners LLC

Great, thanks.

Q

Operator: Your next question comes from John Walsh with Credit Suisse. Your line is now open.

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Hi, good morning. Thanks for the information, everyone. Wanted to focus a little bit on kind of the regulatory drivers here and kind of where you might see the most actionable items. I think we know that there's definitely a desire for clean and healthy water around the world, but we've kind of seen fits and starts here before.

Q

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

Yeah.

A

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Q

So I guess, as you're looking forward, where do you really see the big regulatory changes that will impact your business. And then anything as it relates to the \$1.2 trillion stimulus from last year? Obviously, there was a bucket there for things around PFAS remediation, et cetera? Thanks.

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Sure. Yes, so thanks for the question. So, if I just start in terms of the beginning, look, I think from a regulatory perspective, John, I don't personally think that regulatory is what's going to drive growth in this market, right. I think one of the things that really excites us is that when you look at its core, the demand here is really going to be driven by sustainability, right. So – and when you think about the fact that you have almost a 1 billion people today, they don't have access to clean drinking water, like that has to be fixed, right. And so, are there regulations that will be implemented as it relates to minimal liquid discharge and zero liquid discharge, we think so. What I think what really drives that growth is when you take a look at what's underlying from a sustainability perspective and how we're going to have to come up differentiated solutions to help solve some of these tough challenges, I think that drives it more or so than the regulatory environment would.

Now, as it relates to the second part of your question in terms of the stimulus, I'd say that we continue to stay close to see where we can participate as it relates to that. Obviously, there was water or there was money, I should say, that was earmarked for water types of investments. And so as we're working with not only the end customers, but also some of the systems integrators, we're trying to stay close to them to understand where we can participate there as well.

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And then maybe just as a follow up on the competitive landscape and maybe attacking it from a systems standpoint, a lot of times as we understand it, you might be not competing necessarily against another public or private competitor, but even parts within a large organization, i.e. like their engineering team. So curious as you think about your business, how much of it is you might be able to win just by helping your customer take over more of what they [indiscernible] (00:34:36) in terms of water purification, et cetera, versus having to displace another kind of multinational or private company?

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah, I think that's a great question, John. I think it's, one of the unique attributes of our portfolio, to be frank with you, right. Because when you take a look at the breadth of technologies that we have within the portfolio, there's nobody that comes close to being able to match the breadth and scale that we have there, right. And so, again, I think we'll continue to leverage that where it makes sense. As I said earlier, we'll continue to work with systems integrators to provide key solutions as it relates to purification and filtration components. But we also want to be mindful that [indiscernible] (00:35:16) from a CCRO perspective, for instance, there's opportunities for us to bring together or to bring to market that full solution, if you will. And so we'll continue to evaluate or to try to grow that business. If I take a look today, it clearly – the bulk of our revenues comes from selling these components. But again, I think we'll continue to explore what makes the most sense in terms of how do we drive and create the most value for our business?

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Great. Thanks for taking the questions. Appreciate it.

Q

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

Yeah. Thank you.

A

Operator: Your next question comes from the line of John McNulty with BMO Capital Markets. Your line is now open.

John McNulty

Analyst, BMO Capital Markets Corp.

Yeah. Thanks for taking my question. So, I guess the first one would just be it looks like you've got some capacity constraints across the business in terms of some of the platforms that you have. I guess when you think about the roughly \$1.4 billion of sales across the business, how much of that business would you say right now is currently capacity constrained? And when you do start to unlock some of that capacity with some of the investments that you're doing, I guess how should we think about how that might accelerate the growth from kind of the 7% range that you're seeing from 2019 to 2022? How might that accelerate things?

Q

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

Yeah. Good question, John. And so, what I'd say is that I take a look across the portfolio today and I'd say the most pressing constraint that we have right now is from a reverse osmosis perspective, right. So, we talked about how that's approximately call it, 40%, 45% of our sales are in RO. One of the things that that the team has done a nice job of over the last, call it, 12 to 18 months is trying to identify ways to unlock incremental capacity without having to make major capital investments in doing that, right. And so, I think we've been successful there. I think the reality though is when you take a look at how this business is growing globally, we're going to have to invest. And so, you've probably heard how we're evaluating an expansion of our RO technology current and look to potentially greenlight that project at some point later this year. So that's a multi-year type of investment, right. So you won't see the benefit of that right away. So what's critical for us in the interim is figuring out how we can unlock some of that incremental capacity through lean and digital initiatives at our facilities.

A

Just as it relates to, once we do that, what does the growth rate look like? You know, as we said, we think that we can grow kind of the mid to high single digits over time in this business. And so, again, as we bring that new capacity on, John, I would think that we would tend to move a little bit higher as it relates towards the higher single digit piece for RO specifically once we make those capacity investments.

John McNulty

Analyst, BMO Capital Markets Corp.

Got it. No, that's helpful. And then maybe just one question, so, look, it sounds like you've got some pretty strong leading kind of positions in a pretty large swath here. I guess when you don't win the business, what was the reason for that? Was it an incumbency issue with a partner like – and does that play into the effects of this? Is it a technology or something where you may not quite have every arrow in your quiver that you might need? I guess, how should we think about that?

Q

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah, I'd say, from a technology perspective, John, I'd put our portfolio up against anybody. I'd say very rarely are we losing on large projects due to technology. I think the incumbency issue that you bring up is fair. I think sometimes we have customers that may be a little bit hesitant to change. I think that's what we're trying to do in terms of going downstream and help educating customers why our materials are the right materials, right. So if you think about it from an RO perspective, for instance, there are really three key areas from an RO perspective that differentiate it, right. So how much material you're able to get through, which is called flux. How much of the contaminants can you stop, which is called rejection. And then how durable your elements are. And when you look at those three components for us, we're right at the top, right. And so, I think it's just helping to educate customers as to why making the changes a risk.

I think the other thing to be candid with you, John, one of the reasons that we lose is pricing, right, because I do think that we invest a lot in R&D and technology, and so we command a premium on our products. And so, sometimes customers that may not be as familiar don't have that willingness to pay. But I'll tell you that, if you take a look at how we've done over time, once we start to help educate customers, I feel really good around how our portfolio and value props stacks up versus our competition.

John McNulty

Analyst, BMO Capital Markets Corp.

Q

Got it. Hugely helpful. Thanks a million, Leland.

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah. Thanks, John.

Operator: Your next question comes from Chris Parkinson with Mizuho. Your line is now open.

Christopher Parkinson

Analyst, Mizuho Securities USA LLC

Q

Great. Thank you so much. So you have pretty helpful breakdowns on page 2 and 7, of the overall portfolio in your products for life sciences and some of the resi applications in particular. [ph] So I think in (00:40:31) just down to that sub-segment, can you just quickly discuss the global competitive environment for this specific portfolio, the relative pricing power, and then also just the growth rates, just how we should be thinking about that versus the other core industrial? Thank you.

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah. And so, Chris, specifically, I think your question was related to life sciences and specialties, right.

Christopher Parkinson

Analyst, Mizuho Securities USA LLC

Q

Correct.

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

So I think one of the things is that when we take a look at life sciences there, for us, as we said on the call in the prepared commentary, you're probably looking at about 20% or so of our portfolio. I think that as we sit here today, really encouraged about what the growth opportunities look like in that space, right. So you're talking kind of mid- to high-single-digits for that space. I think when you take a look at the competitive landscape there, I mean we have some, I'd say, relatively few competitors there, right. So, you have folks like pure [ph] light (00:41:29) folks like Cytiva. And so, again, we continue to look invest R&D dollars to figure out how we can come up with new and innovative products that help us to capture more of the share there. But again, as we highlighted on, I think it was slide 7, I mean, we do everything from heat sanitizable RO to helping to isolate certain types of proteins with milk. And so, again, I feel really good around the long-term prospects there, and think that from a growth perspective, it's one of the markets we'll continue to play in pretty actively.

Christopher Parkinson

Analyst, Mizuho Securities USA LLC

Q

Got it. And then, kind of sticking with this on page 4 and 5 once again, helpful overview of the portfolio, you've been evolving this over the last few years, and obviously you have some pretty solid legacy technologies as well between RO, UF, and ion exchange, so on and so forth. When we think about the broader M&A strategy and how you're fitting with customers, once again, it seems like you've really enhanced your portfolio. Just how should we think about the relative sizes, is it mostly tuck-ins and bolt-ons or are there larger potential deals to really get where you ultimately want to be? Thank you.

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah. No. Good question, Chris. Thanks for the question. So, look, I'd say this. I think that and we've talked about it publicly before when you take a look at where we're going to be going into 2023 from a cash position as a company after we've done some of these divestitures, I feel really good about what the opportunity set looks like in terms of potential M&A. And so, I won't be prescriptive and say that it's only going to be isolated to bolt-ons or it's only going to be isolated to larger investments. I'll go back to what I said earlier. I think at our core, we're a filtration purification solutions provider. If there are opportunities for us to augment that portfolio in a way that helps to drive value, we will certainly look to do that, right, until – again I think adjacent treatment technologies or purifications technology are certainly something that we would look to do. I think the key for us is just making sure that the solutions that we would acquire have some type of differentiated technology to it, right. So we want to make sure that there's something differentiating that sets us apart and to make sure that we could capture the full value of those types of investments.

Christopher Parkinson

Analyst, Mizuho Securities USA LLC

Q

Great. Insightful color. Thank you so much.

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah.

Operator: Your last question today comes from the line of Josh Spector with UBS. Your line is now open.

Joshua Spector

Analyst, UBS Securities LLC

Q

Yeah. Hey, Leland. Thanks for taking my question. Just two quick ones, follow-up on the sales process side of it. Is there a [indiscernible] (00:44:08) element of the components that you're selling into? So wonder if you could talk about that. And then two just you talked about some of the margins, wonder if you could just comment on EBITDA margin specifically for this business? Thanks.

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah. Yeah, good question, Josh. So, I'd say, from a specification perspective, and some cases there are, Josh, as you think about some of the project types of sales that we do, I would say that they – we see that. For the most part, so, one of the things that we're trying to do is make sure that as we go in and talk to the customers that we show them the value that we bring as a solutions provider, right. And so I think that we don't run into a lot of scenarios where we're not getting business because of specification.

I'd say the other thing from a systems perspective that we like when you think about CCRO, we have the ability to put our elements in that complete solution that we bring to bear for the customer, right. And so typically that customer would go back and use our elements, right. As I said in the prepared commentary, about 70% of our revenue is kind of recurring revenue, right. So we have visibility to what we can see it. And so, I think that, that will continue as we move forward.

I think from an EBITDA margin perspective, Josh, we're kind of right at segment average, right. I mean we've – from a water perspective, we're right at the kind of the W&P average is how you should think about that. Obviously, over the last year or so, there's been a lot of pressure as it relates to price cost, but again, that's not unique to us. But again, I think one of the things that I would point you back to though, Josh, and I'm sure you're aware of this. If you go back to 2017 when this business came over and you look at the EBITDA margin expansion that we've delivered since then, it's really phenomenal work by the teams, across the business to do that, right. And the way that they did it was through, looking at asset foot printing, look at product rationalization and more importantly, looking at pricing and what we can do to drive pricing. And so we've seen somewhere on the order of 800 basis point to 1000 basis point EBITDA margin expansion since 2017, which is something that I know that I and the team are extremely proud of.

Joshua Spector

Analyst, UBS Securities LLC

Q

Thanks. Really helpful.

Leland Weaver

President-Water & Protection, DuPont de Nemours, Inc.

A

Yeah.

Operator: This concludes our Q&A for today. I now turn the call back over to Chris.

Christopher Mecray

Vice President-Investor Relations, DuPont de Nemours, Inc.

Thank you, everyone, and thanks to everyone who joined today. We hope you found this teach-in helpful and you better understand the Water Solutions business as a result. If there are additional questions our IR team is happy to take it offline for any follow-up discussions with you.

And as a reminder, today's webcast was recorded and it will be available for replay, along with a slide presentation on the Investor Relations section of the DuPont website. You can also find replays of our previous teach-ins on the website. We plan to continue our teach-ins with Water & Protection in the second quarter, and we'll share more details shortly with you. This concludes our call. Thank you.

Operator: This concludes today's conference call. Thank you for attending. You may now disconnect.

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