DuPont de Nemours, Inc.

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Michael Leithead: I think we'll go ahead and get started. I think the music ended. Appreciate everybody who's coming or who's joining us today. My name's Mike Leithead. I head up U.S. Chemicals and Packaging efforts here at Barclays. Really happy to have to the DuPont team here with us. Ed Breen, Chairman, CEO; Lori Koch, who heads up the CFO role as well. So before we get started and dig into the Q&A, we're going to run through some of the audience response questions fairly quickly. So if you could flip to number one.

Do you currently own the stock? Yes, overweight, market rate, underweight, no? Okay. A lot of opportunity here, I think, to get some new investors.

Next question. What is your general bias towards DuPont stock right now? Positive, negative, neutral? Okay. Little bit of a mix right now.

Next question. In your opinion, through cycle EPS growth for DuPont will be above, in line or below peers? Okay. Most people say in line.

Next question. In your opinion, what should DuPont do with excess cash? Bolt-on M&A, larger M&A, repos, divis, debt paydown, internal investment? Okay. It seems like share repurchase is the biggest with bolt-on M&A and internal investment number two.

Next question. In your opinion, on what multiple of 2024 earnings should DuPont trade? They got a range from less than 10 through higher than 21. Fortunately, we don't give Lori one up here, so she can't press the 6 five times in a row.

Edward Breen: Yes, she would.

Lori Koch: Chris can.

Michael Leithead: Chris might be able to, though. All right. It sounds like 16 to 18 is sort of where the quorum is.

Last question, I believe. What do you see is the most significant share price headwind facing DuPont? Core growth, margin, capital deployment or execution strategy? Okay. It seems like core growth is the winner there or the biggest focus for investors, I should say.

So look, we'll go ahead and get started. Ed, Lori, appreciate you guys joining as always again this year. And maybe let's just kind of start off big picture, kind of level set where things are. DuPont's obviously in a lot of end markets, touched a lot of different regions. Can you maybe just do a quick tour around the world, what are you seeing, what are you hearing as we enter 2024 here?

Edward Breen: Yes, I'll let Lori go through some detail in a minute if you want to dig in more. But I'd say overall general theme -- and by the way, that last question, core growth, we really had a year end 2023 where we had a lot of destocking going on and accelerated in the back half of the year in our W&P business. So the electronics went into the destock first, and that's well over a year ago. Both our ICS business and our semi business are now coming out of the destock, and we're starting to see growth there as we talked about on the earnings call.

It was interesting in the fourth quarter. Again, we're a lot of short cycle businesses. We saw order rates decline in some of our W&P businesses on the safety side, the water side, and it was all destocking going on there. What was really interesting about it on the earnings call the other week, we talked about our orders pretty much across the board accelerated throughout January. And I would add that two weeks now into February, our orders since January 1 through the middle of February are up low double digits. So we continued to see lift in the first and second week of February.

And the only two end markets -- and by the way, it was very broad, which was interesting. The only two markets we did not see significant lift in were our biopharma business and our Kalrez business. And both of those we think destock in the second half of the year more towards the fourth quarter. But across our safety like Nomex, Kevlar, our water business, a little bit on the medical packaging, they all started lifting for six weeks now.

So I think we're by and large mostly out of the destock that we were seeing last year and getting worse at the end of the year, except for those two end markets that I mentioned. And I think on the biopharma side, there's six or seven other cust -- vendors out there that have said the same thing. We think it's a second half recovery. So we're hedging and saying fourth quarter.

Michael Leithead: Okay. That makes sense. Maybe let's start with electronics because you mentioned, obviously it feels like we kind of went through that first. A lot of buzz around there, topics like AI, data centers, but you don't always see that in quarter-to-quarter numbers or there's just so much volatility. So can you just remind us high level, just what are the biggest volume drivers for your electronics business and sort of near term how you're thinking about that recovery?

Lori Koch: Yes. So within semi, which is about a $2 billion segment within electronics, the largest key driver is going to be MSI growth. And for 2024, our current expectation is about 6% to 7% MSI growth, and we'll outperform that metric by about 200 to 300 basis points. So a key driver of that, not only the 6% to 7% market growth, but our outperformance is that exposure to data centers and AI and more advanced chips.

So we've got about a $700 million business in data centers. About $250 million of that is AI. Small but growing at a very nice clip for us. So that's going to be the key driver for semi, coupled with the fact that we expect the fabs to get back to more normal utilization levels as you head into 2025. So they're definitely going to ramp through 2024 starting in the low 70s, probably ending in the low 80s and then get back into that low 90 utilization rate as we head into 2025.

It's similar dynamics on the ICS side, which is primarily PCBs and Laird. We do see improved utilization on the PCB side versus where we were. It was the first business to go into the downturn in the third quarter roughly of 2022, so it was the first business to come out. We saw positive volume growth in ICS in the fourth quarter, about 2%, and we'll look for continued recovery throughout 2024.

So it feels like that ICS and the semi businesses have definitely normalized and are on a growth trajectory path. Those businesses, E&I in total should get back closer to their normal margin profile as you head into the back half of the year, and it'd be kind of more in a much normal position.

Michael Leithead: Yes. Okay. No, that makes a lot of sense. And then circling back to W&P. It seems like, obviously, inventory dynamics surprised a number of folks in the fourth quarter. Can you just talk about -- I mean, is it more just around the visibility given so much goes through distribution that kind of caught people off guard? And then to your point around the first quarter, is sort of this low double digit trend, this six weeks now of more buying sort of what gets you comfortable that that destocking is behind us now?

Edward Breen: Yes. Look, I think six weeks is pretty telling now. And as I said, when we did our earnings call, we were up 8%. Now we're saying kind of low double digit. But I think it verifies the ramp that we said we're going to see from first to second quarter. I think that solidifies that that's occurring.

On the W&P side, a lot of it was what you said. It was not our end customers as much. They were doing some destocking, but the numbers that were really down were with our distributors. and about 50-some percent of our business in W&P goes through distribution. So for instance, in China, a third of our water business is in China. We have more than this, but we have four main distributors over there, but they were down 30%. They just stopped buying from you until they get their inventory back in order. So we saw it pretty rapidly.

Now just to give you the rest of the story in the China distributors. They're about halfway through their destocking. And in January, beginning of February, we saw them start to place orders for delivery in May and June, which kind of verifies, again, starting to see some of that sequential ramp in the second -- kind of the end of the second quarter into the third quarter end. We're tracking those four distributors very closely, and we can literally see that they're about halfway down. They'll be where they need to be in May and June, and then it takes us 60 days to get product over to them. So they're ordering about what we thought they would.

Michael Leithead: So in some ways -- and again, I don't want to mischaracterize, but visibility in some ways is getting a little bit better here as we're going into the year.

Edward Breen: Well -- and look, it's just in my whole career doing this, I've never used the word destock except one other time in 2008/2009, which was mostly the economy went, but there was some destocking because the economy went so much. But this was COVID related. It was supply chains buildup. We had too much inventory. We all did. And then when you're a short cycle business and you also go through distribution, that was this little bit of a surprise that it was as severe as it did, but six weeks bouncing back.

Michael Leithead: Somebody earlier was talking about a normal year, and they can't remember what a normal year was because you got to go back to 2018 or so before normal with quotes around it.

Edward Breen: Yes, I said in the 26 years I've been a CEO, I said the last four have been the most unusual. It also makes it fun.

Michael Leithead: Yes. No, exactly. It keeps you going. And then maybe just to round out the portfolio. I think investors maybe sometimes under appreciate what you guys have in the retained business just because it's kind of in there with the corporate line. But it's done quite well I think the past year or so. Can you just remind us kind of what the key businesses are there and kind of what the growth algorithm?

Edward Breen: I'll let Lori do it because Lori actually, besides being the CFO, she's a head of those businesses. She's also doing an awesome job by the way.

Lori Koch: Thank you. Yes, so there's three main businesses in that portfolio. So there's adhesives, which is the largest which we'll talk most about, and then there's Multibase and Kevlar. The largest end market for both adhesives and Multibase is automotive. And so obviously driving the automotive story for us is the EV piece. So that's a really nice position with all the key OEMs, not only on the structural and body side of the adhesive, but more importantly on the battery side, which is what's really driving the growth.

So adhesives is about an $800 million business this year. Almost 30% of it is EV, and about a third of that 30% is battery and growing at a much higher clip than where auto builds are. So that's really what's driving the opportunity there. Ed and I will actually be in China next week visiting a new facility that we built in outside of Shanghai to address the Chinese automotive market. So that's really the piece of that. They've done a really nice job driving margins as well to be able to deliver really nice productivity as we saw 2023 unfold.

Michael Leithead: Okay, great. And then on the portfolio, Ed, obviously there's been a lot of changes the past three or four years. You got Delrin across the finish line. As you sit here today, is there any major changes left, or do you think the underlying businesses and the pieces are sort of kind of where they should be here for the next, I don't' know, two, three years?

Edward Breen: No, I think we've got to where we want to be. If you kind of dissect the portfolio, again, with destocking out of the way, kind of normal times, about half of the portfolio should outgrow GDP, but the other half should grow either kind of with GDP or industrial production, depending on what it is. So I think that's a pretty nice mix. And by the way, if you go back and look before the destocking, we had three years -- if you just took M&M out of the portfolio and looked at the new DuPont portfolio, we were growing around 5% organically. So I think we have a nice mix of businesses, and so the portfolio is where we want it.

Michael Leithead: And getting -- or maybe just following up on sort of that organic growth piece, because obviously, it's a key focus or a key question for a lot of people in the room. What is the right kind of growth algorithm for this business or the portfolio over the next, again, two, three years? You've got quarter-to-quarter oscillations. But just how should we think about the organic EPS algorithm, if you will, of DuPont over time?

Edward Breen: Yes. I mean, I think you have kind of -- again, it depends what the economy's doing. But if the business is growing 5% top line, 1.5x leverage on the P&L, and then your EPS growth can be double digit, whether it's share buyback or bolt-on M&A and all that. So it should be a pretty consistent model, year in and year out. And then our cash conversion, which this year was 100%, but we should be north of 90% on a pretty consistent basis.

Michael Leithead: And then on the balance sheet side, I think you ended the year 2x, 2.1x net leverage. What is the right leverage portfolio you think about this business if we look out, again, 12 to 18 months?

Lori Koch: Yes. We reset our leverage target early last year to 2x, and so that's where we're comfortable. So we were nearly there at the end of 2023. So we'll look to be in that 2x range. We don't have a debt repayment until November of 2025. So we've got a fair amount of time before we hit that next milestone. And then after that, it's 2028 and then 2038, 2048. So they're pretty far apart with respect to debt paydown. So we're comfortable with the 2x. It allows us to be very shareholder friendly with returning cash to shareholders and also opportunistic as needed on the bolt-on M&A side. But right now, obviously the focus has been on share repurchase with where our share price is.

Michael Leithead: And how should we think about the cadence of share repurchases? Obviously, I think you guys talked about potential for another ASR coming here. Just maybe remind folks about sort of -- obviously, you guys have done a lot the past 12 to 18 months, but what you guys have over the next say, 12 to 18.

Edward Breen: Well, high level, we just took out 15% of our shares over the last year and half, and we just announced another billion. And Lori, why don't you walk through the ASR?

Lori Koch: Yes. So we already launched the first $500 million ASR shortly after earnings. So that probably will take until the end of the first quarter to complete. And so you can expect us on the other side that the earnings announcement in late April or early May to get started on the other $500 million. Even though we had authorization from the Board into mid-2025, we commented on the call that we would look to wrap it up this year. So we have found the last several rounds we've done with an ASR, and we found that to be a very efficient model. There's a lot of bidding to get the program that gives us a nice discount. And it's also just very efficient. You get 80% out day one, and then you get the remaining 20% at close.

Michael Leithead: And maybe just following on to that. As you just mentioned, you guys have been very active in the market buying back your shares. And I think implied in that is you feel that DuPont's probably undervalued and your shares are a bargain to scoop up. What do you think the investors or the market is missing? Or again, if you look at your share price, what do you think one or two areas you think people don't fully appreciate with where DuPont's trading today?

Edward Breen: Well, I think -- by the way, short term, I think the destock has not been helpful, obviously. Coming through that, you can see the numbers really crank. But I think, look, we made a lot of moves in the last five years. I mean a lot of moves to get the portfolio to where we have it. So a lot of people are just studying it, just getting to know it, what's in it. And then of course, we had kind of this year with the destock and the electronics downturn.

But generally, they're all great businesses. I think people have to learn the portfolio. They've got to study, what's this top line? Is like 5% in a normal economy doable? It was. We did it three years in a row before the downturn. So, very doable. But I think it's just a learning process for people. And look, we clearly feel we're very undervalued, and most of you that own the stock and look at it say the same thing. We're at basically a 12 multiple. You've got businesses in our electronics portfolio and water, just to name two of them, which are 18 multiple businesses. So we like buying our shares back at this point.

Michael Leithead: Yes. No, that makes a lot of sense. The one area I do want to touch on a little bit, medical. Now obviously, right now, it's a little choppy. But you guys have expanded your exposure there little bit with a recent acquisition. Can you maybe just talk about kind of what makes that attractive, why you think that's an interesting kind of avenue for what you already had in the portfolio and then maybe moving forward?

Edward Breen: Yes. And that's also an 18 multiple business, by the way, just to add another one if you just do the benchmarks on it.

Lori Koch: Yes. We've got about 10% of the portfolio in health care today. So it's the combination of the existing Tyvek Healthcare as well as the Liveo business, which was in the E&I portfolio, and now the incoming $0.5 billion business roughly from Spectrum. So those combined are not an insignificant portion of our portfolio that, to Ed's portion, trades at much higher than where we trade today.

So we have a lot of affinity for the combination of the Liveo business with the Spectrum business. There's already been a lot of customer engagement around how can we broaden our toolkit to be able to bring more solutions to our customers. So the Liveo business was primarily a biopharma bioprocessing, and the Spectrum business is on the medical device side. And we were each kind of in those places and not really looking beyond that. Now with combination, we can look -- we can cross fertilize and look beyond that. And like I had mentioned, we've already had a lot of inbounds from the customers on the Spectrum side about, hey, how can you help me on the biopharma side with your Liveo business.

Edward Breen: You have one large customer, existing customer of Spectrum ask us to bid on two new projects we would have never been able to bid on because they saw the combination of what we could do between the Liveo and the Spectrum business. By the way, Spectrum is performing very well, obviously the business model that we put together. They're doing a major ramp with this one customer I just mentioned. That's going very well. And the Liveo business is the biopharma one that's going through destocking. Spectrum is not going through any destocking in that end market, but biopharma, and that's the one we think will kind of come out in the third, beginning kind of fourth quarter.

Michael Leithead: And that cross pollination or what have you, is that just because of the breadth of the portfolio, the R&D efforts that you guys already have, just all of the above?

Lori Koch: Correct. Correct. Yes.

Michael Leithead: Okay.

Lori Koch: And we've recently put them together under one leader as well. So the former CEO of Spectrum underneath the private equity firm now heads up not only the Spectrum business but the Liveo business as well. So I think there's further benefits we have from that combination.

Michael Leithead: And then maybe just shifting gears a little bit. On the price cost side of things, obviously you guys have done a good job pushing price through the entire inflationary cycle. Not to say that we're seeing that much deflation, but it seems like inflation at least is moderating a little bit. Can you talk about your ability or comfort in holding that price or, again, how you guys are thinking about managing price cost spreads here as we go through 2024?

Lori Koch: Yes. For 2024, we've got a net neutral spread position right now. So we believe we will have further deflation benefits primarily just coming from the procurement cycle. So as we went through 2023 and we saw deflation kick in, a portion of that was sitting in inventory and will continue to come out throughout 2024.

Our expectation on the top line side is price is that we will have to give back about 1 percent that will neutralize what we believe we'll see on the raw material, energy and freight side. But we'll see how that plays out. So there's pockets where we'll probably be a little bit heavier than others just given the dynamics that are involved, whether it's the level of customer engagement, or primarily when there's raws that are visible that are made in the product and you can go track them with what they're doing from a pricing perspective, it's a different conversation.

But in general, we will still maintain net price spread over the three-year period. So in 2022, when you were in the crux of it all driving up and we had $700 million or so of inflation, we caught all that with price. And then in 2023, we actually saw about a $225 million net benefit being able to hold price, and then this year net neutral as well. So we're to the good --

Edward Breen: We actually haven't given up price yet. We thought we would in one business to maintain market, but we actually haven't done it yet. It's in our plan, we're going to give a little.

Michael Leithead: You shouldn't name that business on an open mic.

Edward Breen: No, that's why I'm not saying it. I will say it in a private setting.

Michael Leithead: And obviously, you guys have moved on or a lot different from petrochemicals and the like. But natural gas is down about almost a buck in the past month or so. Is that beneficial to you guys on the energy side? Is it smaller? How should we think about energy overall?

Lori Koch: Yes, it is a benefit. So we actually had the procurement meeting yesterday before we came down and we saw an improvement in the natural gas and general utility place cycle-over-cycle. However, it was offset by a cycle-over-cycle degradation in logistics, primarily from the Red Sea challenges. So we're still net neutral from where we believe we will be from a deflation perspective, but definitely the super low year of the natural gas prices.

Edward Breen: See, that's something different for management teams just in the craziness over the last few years. I was just telling a group earlier, Lori and I sit all the time in procurement meetings. You didn't have to do that in the past. You did a couple times a year and now it's like every month. It's that important.

Michael Leithead: No, it's been, like we said earlier, a wild few years to say the least. If we maybe just turn over -- again, and I'll open up to questions after this. If there's questions, we'll come around with the mic. But on the liability side, PFAS, you just finalized the water district settlement. Got that all taken care of. If we look over the next 12 to 18 months, are there any other sort of big items on the horizon that investors should be focused on? Is it more smaller settlements from here? Just how do you think about the landscape the next year or so on that, if you can --

Edward Breen: I think there'll be a couple smaller settlements over the next year without getting into details. Remember, it gets split three ways, Corteva, Chemours and us. There's still the MDL with the AG cases and all. But I don't think that's in 2024. So I'm very happy with the settlement we got because I think investors can now scope out the numbers much better with the judge and the plaintiff saying our consortium is 3% to 7% of the exposure, and then DuPont's only a third of 3% to 7%. And I think the water district thing played out where you can see the math for us was not anywhere near the articles being written and what people were speculating. So I think you can zero in on that and do the math on the rest of this.

Michael Leithead: I think any time you can ring-fence or at least kind of put in the numbers --

Edward Breen: That was the big one. The water districts obviously was a big settlement for us and some other companies.

Michael Leithead: And maybe just to kind of tie a knot on it. Lori, can you just maybe just separately remind us just how the cost sharing agreement works for those that maybe don't -- or aren't as intimately familiar with you guys?

Lori Koch: Sure. Yes. So we have an MOU with Chemours and Corteva that roundly is for $4 billion. Our share is $1.35 billion. So as expenses come in, Chemours pays 50%, and DuPont and Corteva split the remaining 50%. We pay 71%, they pay 29%.

Michael Leithead: Okay. Any questions in the audience? Again, I can ask Ed and Lori questions for two more hours if Chris doesn't cut me off. But I think there's a question right there. They're going to bring you a mic right there.

Unidentified Participant: Thank you. Just getting back to kind of where we started in the words of January and February. Would you just mind commenting from a geographic standpoint what you guys are seeing? You've obviously seen a lot of resilience in the U.S., but Germany seems to be pretty flat. China has plenty of problems. I'd just be interested in any color there. Thank you.

Lori Koch: Yes. As we went through 2023, we saw China improve whereby it declined less. And so that's the expectation for 2024 as well. So net-net in 2024, we see China about flat. From a volume perspective, it's going to be a tale of two halves again. So the first half still weak and the second half seeing strength. So that's obviously the one key market that we pay attention to that was the most volatile in 2023, and we see some resolution in 2024. Generally, outside of that, the order of disposition and growth that Ed had mentioned really isn't very different by region.

One of the big pieces that we're seeing, too, that we talked about earlier when we talked about the W&P business and the destock that was felt in Q4 was on the healthcare side. So healthcare is about $0.5 billion business for us with Tyvek. We see that resolving as we get out of Q1. And the expectation for revenue between Q1 -- the first half and the second half for the healthcare business is about an $80 million lift. So it's not insignificant. That's primarily a North American business for us. So we're seeing the orders start to pick up, and it will be a key top line growth driver for us as well as a margin driver for the W&P business.

Michael Leithead: Any other questions from the audience? Maybe the last one then from me. Ed, I think I ended on this last year, but you've obviously been involved in the industrial space for a number of years now. I've seen a number of different cycles. Kind of as we sit here today, again, maybe not as much DuPont specific but just the broader industrial economy, where are you most focused on? What do you think is the most pressing issue or thing that people should be focused on this year?

Edward Breen: Well, I think we touched on a lot of them. I think it's going to be interesting, like the conversation people holding price. Everyone got a lot of price. How is that going to play out for companies? By the way, we got price across the board in every business. So I think that says something about the quality of the portfolio and the fact that we can hold it. But I think just watching companies in general, how that plays out over the next year, year and half for them will be interesting.

And then obviously, the destock was huge for -- I mean, the dispersion in earnings this past quarter was crazy, and by the way, even within people's own portfolio. I'm excited for us because we're coming into a major -- I think, everyone would agree with this -- a major upturn in electronics and semiconductor. And we're in the sweet spot of the semiconductor play. So I think the next few years are pretty exciting for us to watch us in. But in general, the economy feels pretty decent. A little bit lower growth probably just globally. The Germany comment, it's soft. But companies can perform well in that environment.

Michael Leithead: Well, look, we'll end it there. Ed, Lori, appreciate it as always, and thank you for coming.

Edward Breen: Thanks, everyone.

Lori Koch: Thank you.