Operator: Good day, and welcome to the DuPont second quarter earnings call. Today's conference is being recorded and at this time I would like to turn the conference over to Lori Koch. Please go ahead.

Lori Koch: Good morning everyone. Thank you for joining us for DuPont's second quarter 2019 earnings conference call. We are making this call available to investors and media via webcast. We have prepared slides to supplement our comments during this conference call. The slides are posted on the investor relations section of DuPont's website and through the link to our webcasts. Joining me on the call today are Marc Doyle, chief executive officer, Jean Desmond, our chief financial officer and Ed Breen Executive Chair. Please read the forward looking statement disclaimer contained in this slide. During our call we will make forward looking statements regarding our expectations or predictions about the future. Because these statements are based on current assumptions and factors that involve risk and uncertainty, our actual performance and results may differ materially from our forward looking statements. Our Form 10K as modified by our first quarter form 10Q and current reports include detailed discussion of principle risks and uncertainties which may cause such differences. Unless otherwise specified, all historical financial measures presented today exclude significant items. We will also refer to non-GAAP measures. A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained in our press release and in the appendix of our slides. For your awareness, we have kept our prepared remarks to about 20 minutes in order to allow a full 30 minutes of Q and A and then end a little early so that you can join the Corteva call, which starts at 9:00 AM. I'll now turn the call over to Marc.

Marc Doyle: Thanks Lori, and good morning everyone. Before we get started, I'd like to acknowledge the incredible accomplishments achieved but the entire DuPont organization that enabled the successful separation of Dow on April 1st and Corteva on June 1st. I'd like to thank everyone for all they did over the past three and a half years to execute our industry-defining transaction. I'd also like to specifically acknowledge Jim Fahey for his role in the integration of the Dow and DuPont electronics businesses and his more than 25 years of service. As we announced this morning, John Kemp will succeed Jim as president of the E&I segment.

Let's get started on the quarter. On slide two we delivered a strong quarter and navigated dynamic market conditions in select end markets. By staying dedicated to our core principles of innovation, led growth and disciplined cost control. We significantly expanded both gross and operating EBITDA margins, and grew pro forma adjusted EPS in the high single digits versus the year ago period. We also continued to drive returns on our innovation spend, with key new wins across
several high growth trends, including auto electrification, 5G, health care, water and sustainable food sources. Looking closely at the numbers, total sales of $5.5 billion, we’re down 3% on an organic basis, as continued strength in safety and construction was more than offset by the well-documented weakness we and others are seeing in electronics and automotive end markets. Organic sales in our core segments were down by 1.7%. Regionally organic sales were down 2% in the U.S. and Canada, down 3% in EMEA, down 4% in Asia Pacific, and up 1% in Latin America. The organic sales decline in the U.S. and Canada was primarily driven by lower sales in the non-core segment from weak polysilicon pricing impacting demand. Weakened automotive and electronics end markets continued to drive the declines in both Asia Pacific and EMEA. However, we did see sequential improvement in our China results with sales down 3% versus prior year in the second quarter versus 10% in the first quarter. The increases were realized across all of our core segments.

One of the key bright spots in the quarter was a substantial improvement in gross margin, which was realized in all of our core segments. Gross margin improved more than 200 basis points as a result of our pricing discipline, plant productivity, and cost control. All in, swift action in light of prolonged market weakness let us to outperform from an operating EBITDA perspective versus expectations in spite of a weaker top line. Operating EBITDA of $1.4 billion was essentially flat with the prior year period resulting in strong operating leverage and demonstrates our ability to deliver pricing and drive operating efficiencies amid challenging market conditions. Excluding currency operating EBITDA in our core segments was up 6% on a year over year basis.

We also delivered operating EBITDA margin improvement of 170 basis points versus the prior year and have delivered operating EBITDA margin improvement of greater than 300 basis points since the second quarter of 2017. Adjusted EPS as shown on slide three was up 9% on a pro forma basis versus prior year, driven by lower depreciation and amortization. The quarter also benefited from a 3 cent per share tailwind from a lower share count in line with the share repurchases we did as part Dow DuPont and a priority that we will maintain as part of new DuPont evidenced in the $250 million in purchases that we have completed to date. Before I turn the call over to Jean to discuss the quarter and full detail, I’ll provide an update to our full-year guidance as well as our expectations for the third quarter on slide four.

For the full year, we now expect organic sales to be slightly down versus the prior year. This change in expectation is a reflection of the prolonged weakness in our short cycle businesses, primarily automotive and semiconductors, causing both lower volumes and pricing headwinds as a result of the supply/demand imbalance. From an earnings perspective, we expect operating EBITDA to be on the low end of our previously stated range. We are targeting $80 million in cost actions in addition to the $30 million we took in the second quarter to mitigate the macro headwind from both price and volume in the second half. These new cost actions are biased towards the fourth quarter and include the benefit of a restructuring program authorized during the second quarter of up to $130 million. All in versus our previous guidance, we lowered our organic sales by approximately 300 basis points versus the previous midpoint and lowered EBITDA by about 90 basis points versus the prior midpoint, which is a direct reflection of our ability to mitigate weak market conditions with levers that we can control.

We are raising our pro forma adjusted EPS guidance range to $3.75 to $3.85 per share, reflecting the strong second quarter results, the net impact of our second half segment earnings revision, and updated D&A and tax rate assumptions, the latter of which is now expected to be at the high end of the range.
For the third quarter, we expect organic sales to be down low single digits. From an earnings perspective, we expect our tight management of spend and strong productivity actions will again enable us to deliver strong operating leverage despite a lower top line. For the third quarter, we expect pro forma adjusted eps to be in the range of 94 to 99 cents per share. In the appendix we provide segment-level commentary as well as some additional modeling guidance.

Overall, I'm very pleased with how our team continues to navigate the market uncertainty by capitalizing fully on our competitive strengths and focusing on the levers within our control to deliver strong bottom line results. These actions will position us well as markets recover to capitalize on our improved cost structure and investments in innovation. I'll now turn the call over to Jean.

Jean Desmond: Thanks, Marc. On slide five, you can see a snapshot of the Second Quarter Sale and operating EBITDA results for each of our segments. Before I move into the segment details, I want to assess our performance opposite two of our medium-term financial targets, organic revenue growth and operating leverage. We set a medium-term target organic sales growth of 3% to 5%, which was based on a 3% global GDP. Regardless of your view of what global GDP will be for 2019 it's clear that our current year performance is well short of this medium-term target. For the year, we expect our sales to be slightly down organically, while several of our most exciting end markets such as water solution and probiotics, saw high single and double digit growth in the quarter, the softness in short cycle businesses that Marc talked about are overpowering these bright spots. We are committed to meeting the targets we have set and are taking actions to move our performance in the right direction.

Our R&D spend is bias towards high-growth, high-return areas that we believe will allow us to continue to accelerate our innovation led growth. We're also taking actions in non-core, which is now a separate segment in our reported results. Once complete, these portfolio actions alone are expected to improve our underlying performance. For 2019 we expect the non-core segments to negatively impact our organic sales growth by about 80 basis points.

Let me also address operating leverage. We are committed to delivering one and a half times operating EBITDA growth over our expected top line growth. Through the first half, we've generated greater than 80 basis points of operating EBITDA growth in an environment where our top line has declined nearly 500 basis points. With continuing softness in the second half. We are taking additional cost actions as Marc mentioned, to maintain our leverage.

With that. Let me provide some additional details on the segment results. Starting with Electronics and Imaging on slide six. Second quarter sales of $858 million and operating EBITDA of $246 million reflect continued soft consumer demand coupled with customer destocking which was mostly driven by high inventory levels in the memory sector. Our position in advanced materials, for the production of next generation smartphones launching later this year remains strong. We are encouraged by the pace of early orders. Additionally, we continue to see strong volume gains in OLED display material. However, greater than expected softness and high inventory levels resulted in a year over year volume decline in semiconductor technologies, one of our highest margin businesses in E&I. These declines led to a less favorable product mix, lowering operating EBITDA margin by 280 basis points versus the second quarter of 2018. Looking forward, we expect growth in our interconnect solutions business as we see the launch of new phone models later this year but also anticipate continued soft market conditions in the semiconductor space.
You can see the results of our Nutrition and Biosciences business on slide seven which delivered 150 basis points of operating EBITDA margin expansion year over year on cost synergies and pricing gains across all regions and businesses. Nutrition and Biosciences delivered operating EBITDA of $391 million on sales of $1.6 billion. Bright spots within the N&B portfolio included probiotics, which returned to double digit growth this quarter with particular strengths in Asia Pacific and mid-single digit growth in microbial controls. We also continue to see strong demand growth in our food and beverage business from a plant-based meat trend. Offsetting these areas of strength, we saw declines in functional solutions within food and beverage driven by the unseasonably cool start to the summer season in North America impacting our dairy market sales. Volumes in pharma solutions declined low single digits due to capacity constraints and mix enrichment, as we shift the portfolio towards higher margin products. We expect to see a solid growth trajectory from nutrition and biosciences businesses, supported by a return to positive growth from food and beverage and pharma solutions in the second half. We will continue to invest our R&D dollars into exciting spaces such as the microbiome to drive innovation led growth.

Slide eight shows the results of our Transportation and Industrial segments. Similar to E&I, T&I is exposed to short cycle businesses, mostly autos and electronics, where weak demand continues driven by the global macro-economic conditions and US China trade tariffs. This weaker demand also led to additional softness in Europe, where volumes for the segment were down mid-teens percent, primarily driven by a weaker export market into China. T&I sales of $1.3 billion were down 7% versus the year ago period on an organic basis with 12% volume decline, partially offset by 5% pricing strength. In the second half, we anticipate year over year pricing gains will diminish and sequential prices will decline modestly as supply demand balances normalize versus the prior year. Operating EBITDA of $357 million declined to 11% with lower volumes and a currency headwinds more than offsetting price increases and costs synergy savings. For the third quarter, we expect a similar volume environment with ongoing weakness in auto and electronics as a result of lower demand out of China and continued destocking in the polymer distribution chain. Global auto inventory levels improved in the second quarter, and we anticipate polymer inventory levels to normalize by year end. We anticipate lower demand will be partially offset by additional productivity actions.

The results of our Safety and Construction business are shown on slide nine. Net sales of $1.3 billion up 5% on an organic basis, coupled with operating EBITDA margin improvement of 690 basis points led to operating EBITDA of $382 million, up 29% from the prior year. The 5% organic growth included a 4% pricing gain, which was across all businesses and all regions, led by safety and water solutions. The 1% volume growth included high single digit growth in the water solutions business, which was led by gains in Asia Pacific. This growth in water was offset by lower volumes in shelter solutions on continued softness in the North America residential construction market. Growth in operating EBITDA was led by water and safety businesses, where local price gains cost synergies, productivity improvements, and higher volumes in water more than offset a currency headwind. As we look to the second half for safety and construction, we anticipate the pace of price improvements to decline as we begin to lap many of our prior year price increases.

We also have several planned maintenance shutdowns in the back half of the year, which will impact both our volumes and our earnings.

Let me wrap up with a few comments on the balance sheet and return on invested capital on slide 10. You'll see that our capital structure is nearly final at this point with a few remaining items,
including a $200 million fund into our Swiss pension, which is planned before year-end as part of the separation. At the end of June, our net debt was $15.6 billion.

From a working capital perspective, we did see a use of capital in the second quarter versus the year end 2018 balance sheets. We typically see an intrayear year increase, but our second quarter increase was greater than normal, driven by higher inventory levels, due to a weaker demand and higher accounts receivable, primarily due to stand up activities required as part of the separation. We continue to see a billion dollar working capital productivity opportunity and expect to bring our working capital more in line by year end. We will publish a cash flow statement as part of the 10Q which will be filed next week. However, it includes the results of Dow and Corteva, up until their separation.

Earlier, I spoke about two of our midterm financial targets, organic revenue growth and operating leverage. Return on invested capital is the third financial metric we have put in place and have stated the target of a hundred basis point improvement annually and since the beginning of 2017, we have driven well above a 200 basis point improvement. This performance shows that we have taken the actions necessary to make this a meaningful metric for DuPont and ROIC is now an embedded mindset across the company, which will help drive sustainable earnings growth. I'll now turn the call over to Ed.

Ed Breen: Thanks Jean. I'll provide an update to our strategic priorities on slide 11. We are committed to delivering best in class performance and in the quarter we continue to advance our performance towards these goals. Our focus on innovation continues to accelerate growth from our robust R&D portfolio, as evidenced by our eighth consecutive quarter of pricing growth. We have and we'll continue to invest in innovation even during the weakness we are experiencing in our short cycle businesses. In fact, our R&D spend as a percentage of sales was held steady at 4% for the quarter, in line with our targets. I am pleased with our cost productivity, including delivering over 100 million in cost synergies in the quarter, leading to 170 basis points of margin expansion. We also continue to execute our portfolio actions and are actively engaged in discussions to sell the businesses within our non-core segment. We expect to have made meaningful progress on these divestitures within the calendar year.

From a broader perspective, our portfolio presents potential for significant value creation over the long term. I am pleased with the organization's focus on driving free cash flow and improving ROIC. We recently issued a performance grant to members of our leadership teams which has ROIC improvement as a key metric in the payout. Integral to achieving this goal is effective capital allocation and our commitment to this priority is evidenced by our completion year to date of $250 million of share repurchases under our $2 billion plan. I can assure you that your organization will stay focused on its top strategic priorities, with the ultimate goal of creating shareholder value. I'll now turn it to Lori to open the Q and A.

Lori Koch: Thank you, Ed. And with that let's move on to your questions. First, I would like to remind you that our forward looking statements apply to both our prepared remarks and the following Q and A. Please provide the Q and A instructions.

Operator: And if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star one to ask a question and we will take our first question from Vincent Andrews of Morgan Stanley. Please go ahead.
Angel Castillo: Hi, this is Angel Castillo on for Vincent. Just a quick question around your back half expectations. So you guys had talked about Q2 guidance, but just looking at what that implies for, 4Q, it looks like it’s a pretty sharp improvement in E&I for the fourth quarter. And then also some improving trends in T&I, even though it’s through 3Q, guidance seems to be getting worse to sequentially. So just curious as to what’s actually embedded in the back half. How big a risk do you feel it is and just how maybe how dependent it is on trade resolution.

Ed Breen: Yeah. thanks for the question. I’ll let, let me, give that a little bit of an overview and then let me turn it over to Marc for a little bit more detail. The difference by way just high level between the first half of the year and the sequencing through the year is the first half and second half sales are virtually flat in our planning. They’re up just very, very slightly. And don’t forget the fourth quarter we have an easier comp, because our businesses dropped off last year, so we’ll have more positive organic growth in the fourth quarter, still negative in the third. But that’s an easier comp. So, but you actually look at the sequencing, what we’re saying, we’re counting on the same soft– the short cycle market staying down the rest of the year, which is basically, you know, the E&I type businesses, the T&I stuff and in, in E&I, the semiconducting businesses. So, we’re, you know, we’re not counting on any improvement happening from that standpoint. So we’re planning our cost structure and our business actions around that. But Marc, why don’t you give them a little more detail on that?

Marc Doyle: Yeah, thanks, Ed. And yeah, just to build on what Ed said, there is, couple of sequential changes. I mean, there’s a slight improvement in E&I that’s really driven by the premium smartphone market. As we said last quarter, as launches happen in the second half, we’ll see some additional sales. we’re pretty confident with that. The orders started to pick up in the second quarter and some of that is leading to a slight improvement in the back half for E&I. And then you asked about the trade resolution. We’re not assuming that there’s any change in the trade environment. So for our second half outlook, we're sort of staying the course here on the current situation.

Angel Castillo: Great. That’s very helpful. And, just the other question I had just was on cost cutting. So you guys talked about the $80 million here in this-- in the second half. How sustainable are these costs or if things improve, are these costs going to come back or-- yeah, how should we think about that?

Ed Breen: Yeah, I’ll give a couple of comments on it. I think we're looking at these costs more permanently out of the system. So we did $30 million in the second quarter and Marc and the team are doing another $80 million in the, in the second half is just, I think Jean said, biased more towards the fourth quarter by the time they kick in. But I’d also like to highlight for your comment that Jean did make. We are not touching R&D, you know, if we're just, because we're seeing a little short term softness, we're gonna run the R&D, you know, around 4%, maybe just slightly above four, which is exactly aligned with all the detailed plans of the team– that the team has. I think that's really important. We're not going to clip our future growth prospects just because of a little weakness, you know, in short term.

Angel Castillo: Very helpful. Thank you.

Operator: And our next question will come from Jeff Sprague with Vertical Research. Please go ahead.

Jeff Sprague: Thank you. Good morning everyone. Two questions for me. I want to pick up on, on the margins and then also a thinking about cash flow. So the gross margin performance was very solid, impressive. I'm just picking up on the prior point a little bit. Ed or Marc, just thinking about synergies versus kind of ongoing cost actions, how that mix might change? Are synergies kind of
starting to run their course tail off and we might-- and might we see kind of more kind of restructuring actions of this ilk going forward, even in the face of perhaps better, you know, macro trends, say, into 2020.

Marc Doyle: Yeah. Jeff, this is Marc. I'll take that. I mean, yeah, what we'll be seeing is, I mean take 2Q as an example, we still delivered about $100 million in synergies. That'll be happening through the end of the year here. But we also delivered productivity on top of that. As Ed said, about $30 million. We'll see more productivity, less synergy going into 2020, and we've already teed up a number of areas that we intend to focus on, and so you'll see us talking more about that on a going forward basis. The synergy program will end early next year we'll deliver the last portion of that.

Ed Breen: One of the big areas that the team is focused on, to Marc's point about going in the future is we, I was, as you know, of, of factory efficiency program going on, productivity there, which is pretty big for DuPont with some of the large facilities we have. And a big part of it emanates in our S&C business, which has our bigger, tougher, facilities. And as you can see during this past year, the team has made really good progress in that business. And you know, we were up almost 700 basis points in that business, you know, over the last year. And again, great progress in the quarter. There are a lot of that is coming. We are getting pricing in that business but we are seeing some volume growth. But really underlying that is really tremendous progress on that productivity on the factory, a footprint. So that's a big thing. And by the way, that's just not-- that happens to be the biggest opportunity. Marc's got a program with the team and across all the businesses when it comes to that factory efficiency.

Operator: And we will take our next question from Steve Byrne at Bank of America. Just go ahead.

Steve Byrne: Hi. I wanted to ask you about where you're seeing revenue synergies within your businesses, and is there potential for any more tailwind from this, as we move forward?

Marc Doyle: Yeah, yeah, Steve, let me take that. It's Marc. Yeah, what we've said from last year is that there are opportunities across the portfolio. The revenue synergies take a little bit longer to build, you know, due to qualification timing. There are some launches that have been happening this year. you know, for example, some of the plant-based meat offering cellulosics, things like that are coming out of the new cellulosics portfolio. That was the combination of Dow and FMC. We did a Beta launch of smart materials offering around smart conference tables that was also a Dow plus DuPont, an integrated offering. And so you'll see more and more of those launches. We've sized the opportunity for revenue synergies at around about $400 million EBITDA, but we said it would be three to five years out. So the way I think of it is it's a, it's a growth kicker, but just a portion of the three to five year growth objective and it's really localized to those overlaps that exist in each of the segments, actually, if you look at the way we put Dow and DuPont together.

Operator: And we will take our next question from John McNulty of BMO Capital Markets.

Bhavesh Lodaya: Just go ahead. Hi. Good morning. This is Bhavesh Lodaya on for John. As we think about strategic opportunities to create value using the portfolio, do you think the current macro weakness may facilitate even more options or does it potentially inhibit your optionality if you choose to preserve your balance sheet?

Marc Doyle: I, I think I, you know, this Marc, I'll kick it off and then I'm sure Ed will add something. I think, current macro is probably not the biggest driver for the opportunity here. I think if you look at the strength of each of these businesses in the portfolio, and the opportunities, you know, to
potentially look for either M&A or other transactions down the road that we see plenty opportunities across the board. Will the current macro drive more of that activity in the future? You know, hard to say.

Ed Breen: Yeah, I'm more-- I don't think the macro or if it's soft or not, I don't think it has any bearing on the strategic moves we would make whatsoever. If you make the right strategic move, you're going to create value. So I don't-- I don't take that into account. I would say as Jean mentioned though, just the highlight on your portfolio comment, I feel good about the progress we're making on the non-core front and you know, that'll be cash coming into the company that we can deploy in a very smart way and every metric practically improves as we exit the non-core businesses, whether it's revenue growth rate margins, ROIC. So we're really focused the, you know, the team on really getting those transactions moving along quickly.

Marc Doyle: Yeah, let me just build on Ed's comment. It's a good point. On non-core, you know, we do get questions about whether market conditions and potentially softening would it impact the value that we get for some of those divestitures in it. And I can tell you we're obviously well into things here. We're not seeing any issues there so far. You know, the assets that we're putting up for sale are our good product lines, businesses. There's strong interest in everything that we're rolling with here. So we're feeling pretty good about the cash generation potential.

Operator: And our next question will come from Jonas Oxgaard with Bernstein. Please go ahead.

Jonas Oxgaard: Good morning guys. I have a- Hey, I have a pretty high level question if you don't mind. With the trade war, the seems to be some, I don't know, idiosyncratic effect, like maybe smarter people than me foresaw that the trade war lingering would cause all the automotive demand to drop. But I certainly didn't see that happening. And so as the trade war keeps going, are there other, what do you call idiosyncratic effects that you're seeing already or that you're worrying about? Or conversely, are there effects that could actually be positive for you?

Marc Doyle: Yeah, yeah. Good question. Jonas. I, I think-- I think it was hard to predict. And I, you know, I wouldn't say automotive demand weakening was all about the trade war, but clearly that's a factor. there were multiple factors. I think if you read some of the industry reports. The other industry that, you know, clearly there's some interesting dynamics is around the electronics industry. A lot of the headlines you read about the Chinese semiconductor industry and Chinese OEMs and US suppliers and, you know, I think we're relatively well-positioned. We have a lot of our production local. You know, we've been positioned in Asia for quite some time, both in our automotive and our electronics product lines. But we have to continue to watch those dynamics in US-China relationship and how those might affect, you know, the competitiveness of US companies on the ground there.

Operator: And we will take our next question from Christopher Parkinson with Credit Suisse. Please go ahead.

Christopher Parkinson: Great. Thank you. Thank you. So the N&B segment, continues to be a bright spot, with a few exceptions like bioactives, which was well-expected. Can you walk us through the puts and takes that you saw for the quarter, including the capacity constraint issue in Pharma Solutions. And then also just if you could walk us through your long-term thoughts on the potential mix benefits from growing probiotics farm and cultures at a faster clip than the rest of the portfolio. Just any comments on how that could affect your margin outlook for 2020 and 2021, would be appreciated. Thank you.
Ed Breen: Yeah, I'll take your second part and Marc can touch on that and the first part. You've been watching for, that's a good three years now a margin expansion every single quarter in what was N&H and now it's N&B, but generally those sets of businesses. We've had margin expansion every single quarter except one. So there's like 15 quarters in a row. One we had a little bit of a blip, so a pretty good track record. And when you really dig into the detail -- oh, and by way, obviously we've had organic growth that's helped us. Our team has been very cost conscious on the G&A side, so they've done a great job on that. There was a fair amount of synergies in that business because of the Dow stuff and FMC coming in. So they're doing a great job on that. But if you actually do the waterfall chart, the biggest impact is actually your comment you're making or your question. It's been an enrichment story and that should play out still over the next couple of years.

And by the way, I think if you do a compare of our businesses to the core competitors, our margins are fairly best in class unless you take an isolated probiotic player or something like that. But we still think we have room to drive them up more towards the company average, be consistently up there. So-- but the biggest part we'll get as we go forward is that mix piece, is what you said, it's pharma, it's probiotics and a couple of those pieces. But Marc, why don't you give the puts and takes and what we think can happen in the second half.

Marc Doyle: And let me give you a little bit more on the, the first question says that the positive that bright spots for N&B in the quarter, clearly as Ed mentioned, probiotics, back to double digit growth. We announced also some pretty significant investments, both in capacity and new product launches during the quarter. Some additional R&D partnerships with other companies. So, you know, we're clearly doubling down to continue that long-term growth trajectory. And as Ed mentioned, that's a great mix, a enricher for margins in the long run.

I'd mentioned also, you know, the microbial business was back up mid-single digits in the quarter. That was good to see. And you know, obviously the plant-based meat trend is a fantastic one. And you know, I think we're, we're pretty well positioned in that market. We're working hard to be the R&D partner of choice for the companies in that space. It's a small business today. It's also a mix enricher, the margins in that space are higher than the average margins in the segment, so that's going to be a good long-term growth driver.

On the, on the other side of the coin, I'd say, you know, clearly the industrial enzymes business continues to have some market struggles. Bioethanol continues to be a really tough market and so that's one that we're looking to hopefully get through during the course of the year and maybe see a recovery in 2020. Nearer term, we had some weakness in the quarter in pharma, which was really driven by capacity issues primarily. And so we, we do expect in the second half we'll see the pharma business back to the usual, you know, at least low single digit growth. The market demand there is strong. It's a good long-term market. We also had a little bit of weakness in the system solutions business because of weather in the quarter and we think that'll pass. We think food and beverage will be back up to low single digit in the second half. And so that's kind of a rundown product by product.

Operator: And our next question will come from David Begleiter with Deutsche Bank. Please go ahead.

David Begleiter: Thank you. Good morning. Hey Marc, interest on safety and construction a very strong first half really good results, but you did call out maybe a weaker back half in and you're and constrained to capacity in Tyvek and Aramids. So given you, I know you had capacity going forward, but given those dynamics, how should we thinking about safety in 2020? Maybe be a little bit slower growth and flattish margins or can you drive price to drive higher results? Thank you.
Marc Doyle: Yeah, thanks David. It's a great question. S&C is obviously firing on all cylinders. You know, as we said, the margin expansion, which the team's been working on for several years, is coming through. We're seeing great demand in the water business, great demand in the safety business. The only weakness is residential construction in the US and you know, we do expect at some point that's going to come back. And so we're really bullish here. Second half, a bit of a sequential softening. The primary factor there I'd say is that we've got some PMMs, which are the big plant turnarounds. The safety and construction business has some sizable sites. And so when those come up for the-- once every couple of year shutdowns, that leads to a slug of cost. I'd say we're also being a, a little bit cautious in the outlook. You know, demand has been booming. Pricing is strong right now. We just don't want to assume that that's going to continue forever. But as we looked 2020, you know, I think we're real positive on the continued growth in that business. The market drivers there, which are clean water, which are worker safety, good exposure to markets like aerospace and defense. I mean those are all real strong, you know, spaces globally right now. So the exposure there on the market side is, is definitely a positive.

Operator: And our next question will come from Bob Koort with Goldman Sachs. Please go ahead.

Dylan Campbell: Good morning. This is Dylan Campbell on for Bob. Last quarter you guys kind of broke out your, your key planning assumptions. Assuming global auto builds were up 4% in the second half. Smartphone deliveries were up 2% in the second half. With the new guidance today, I mean, do you guys see any changes to those assumptions and kind of what do you have embedded in your guidance?

Ed Breen: Yeah, just by the way, just you hit that, and Marc or Jean, jump in also. So the areas we talked about before, the three soft areas that is three, you know, there's obviously residential construction is down with putting those pieces side. It's really the semi business is a little soft, the auto business is still off and the E&I business was soft because of smart phones. So the planning is that autos are still down globally 5% and we're saying no improvement in the second half of the year. By the way, it really looks like inventories in autos around the world including China are pretty much getting back to about normal levels. So that's finished goods inventory. But we still think the supply chain, as Jean mentioned, does still have some months to go to make sure that gets cleaned up.

And then on the smart phone side, as Marc had commented on, we actually saw the improvement or seeing the improvement in the orders we think. But it's not because global demand is up in smartphones, it's actually down. It's that we're driving extra content and we are seeing those orders. We did see those orders begin in the second quarter, mostly for the content we put in on the 5G side. So that's kind of the planning assumption on those two big areas. And we're expecting no improvement in the soft conditions on the semi side, kind of for the rest of the year. Therefore, by back to my comment a few questions ago, we're planning kind of revenue flat first half and second half in the company. I think that's a good planning assumption. So, you know, we don't overspend. We watch our cost controls and all that.

Marc Doyle: Yeah. Let me just build on, Don, on Ed's comment. You know, I had mentioned auto, smartphones. Semiconductor, we have revised the full year planning assumptions. So we were saying early this year that it would be sort of low single digit MSI growth. You know. we're now expecting that that's going to be down a bit. And that's just consistent with what we're seeing in the market, particularly in memory. You know, memory prices are way down, volumes are down. The Korean semiconductor market has been really soft here in the second quarter and that's impacting our materials sales. You know, even as we're investing in next gen qualifications, aggressively in semi for advanced node products, the total volume is just down, you know, by a
few percent, which is different than we expected starting the year. And so those are really the primary areas that we've revised our full year expectations.

Operator: And our next question will come from Josh Specter with UBS. Please go ahead.

Josh Spector: Yeah, guys, just a clarification around free cash flow. When you guys gave prior guidance, you were talking about pension costs around $200 million and cash restructuring around $300 million. I guess slide 10 has a couple of buckets, kind of similar sized, adding the $500 million. Is that incremental to what you were thinking before? So more cash use, or is that the same numbers that you were expecting?

Jean Marie Desmond: Yeah, no, those are actually the same numbers we were expecting. That's just pointing to the outflow in the second half of the year. So I wouldn't say we've had any, any substantial change to our view of free cash flow for the year, which as we've noted before, is primarily-- a lot of our free cash flow for 2019 is was setting up the capital structures for the three new companies. So just providing color on the second half.

Operator: And our next question will come from PJ Juvekar with Citi. Please go ahead.

PJ Juvekar: Marc, with auto builds declining globally, would you say that your decline was in line with the global market, or was it better or was it worse? And then secondly, I think you've talked about falling inventories in auto-related supply chain was high. When do you see that clearing up? And if autos remain weak in the second half, is there potential more downside? Thank you.

Marc Doyle: Yeah, thanks PJ. It's great questions. I mean, you know, the auto market is down. We think we're down about in line on a revenue basis, maybe a little higher on a volume basis. We think that the destocking that's been happening-- but we're watching it closely and you know, at the end of the day, you know, these numbers are approximate. So, you know, within a percent or so we think we're roughly in line. Going into the second half, yeah, we are expecting, as Ed said, the end market auto inventories seem to be in a decent place, at least a certainly in China, where the concerns have been. We are still seeing potential for some further destocking in the channel.

Marc Doyle: We think that that's going to continue here certainly through 3Q. A little bit hard to see beyond 3Q on what's going to happen, but we have built into the plan that the 4Q volumes will be down not quite as much as-- as the first three quarters of the year. So that's kind of the expectation at this point. You know, and I would just say that through all of this, you know, we're continuing to focus on where we see the real growth and bright spots. Auto electrification continues to be a great space that's seeing continued growth off of a relatively low base on car builds. But it's a bigger and bigger part of our portfolio. And so during the quarter we had a couple of new design wins and new product launches around Zytel formulations specifically in that space.

Marc Doyle: We're continuing to invest in the businesses collaborating between S&C E&I and T&I around auto electrification qualifications, and so we're seeing that as a real growth driver certainly for the future.

Ed Breen: Yeah. And probably just to add one point, cause Marc you're talking about the electrification, we would expect once you know, car inventories again we think are back to about normal, supply chain, still working its way through, but one once that kind of corrects itself, no matter where auto builds are at, we really feel confident we'll be back to outpacing auto build by kind of 1.5 times,
which is where historically the company has been running quarter after quarter until we went into this destocking mode.

Operator: And our next question will come from Arun Viswanathan with RBC Capital Markets. Please go ahead.

Arun Viswanathan: Great. Thanks for taking my question. I'm just curious on the pricing momentum, I guess. Do you expect those gains to kind of continue? You mentioned lapping prior year a price increases. how should we think about pricing going forward? And maybe you can just describe that by segment? Thanks.

Marc Doyle: Yeah, why don't I take that, this is Marc. So it's different segment to segment. Clearly, you know, we are assuming that we're starting to lap some of the significant price actions in the T&I segment. And we're assuming I'm also in the S&C business, we'll start to see a little bit less price in the back half. And so as it nets out, we've been running about plus two per quarter, the first half of the year on price. We think in the second half on a year over year basis, we'll get down closer to being flat by the end of the year. Now these are planning assumptions, you know, clearly it depends very much on the demand environment and it depends on, on supply situation. So you know, these things can change relatively quickly. You know, one of the drivers for pricing for us in T&I has been not just a strong demand, but also our very stable, predictable supply situation, particularly in the nylon product lines. And so we've been, you know, one of the producers that customers can really count on to continue to deliver. So, you know, we'll take advantage of that, you know, strong supply capability, you know, if there's any further disruptions in supply in the industry and, and continue to try to drive pricing.

Operator: And we will take our next question from Frank Mitsch from Fermium Research. Please go ahead.

Frank Mitsch: Good morning, folks. I was intrigued by the comment regarding China in terms of the declines, getting the year of year declines, getting better. 2Q versus 1Q. So just curious as to, you know, what you're seeing now that the month of July is behind us and what your expectations are, in that part of the world. And also speaking about the quarter. You called out a customer settlement in non-core. What was the order of magnitude of that, and is that included in the $0.94 to $0.99 guidance?

Marc Doyle: Yeah, Frank, let me take the first question then I'll hand the second question over to Jean. It's-- I was laughing a little bit because it's rare that we would be bragging about minus 3% growth in China. I can't remember that happening in a long, long time, but you know, it was a sequential improvement and it is a little bit of a sign of life. You know, the strength there has been across several of our segments. Most notably I'd say that E&I was up. Also S&C continues to be very strong in China. You know, the E&I growth is a statement around the China semi market, which is a bright spot for semi. Also those orders starting for premium phones and the displays market growth is largely happening in China. On the S&C side, the water business just continues to be booming there. And the team is doing a great job of capturing growth there. That water growth is both in industrial sort of, water, you know, clean up for industrial operations, as well as residential water market in China is really booming and we put out a couple of new products in the quarter and have some notable share gains that are continuing that double digit growth for us. So you know that that's kind of the positive side of the, of the China's story right now.

Jean Desmond: And in terms of your question around non-core and the guidance for the third quarter, we do have an equity affiliate in non-core that has a history of settlements. They're always hard to call when
those settlements are going to hit. But you are right, we are thinking that, you know, there could be one, there would be one, in the third quarter and as part of our guidance

Operator: And our final question will come from Duffy Fischer from Barclays. Please go ahead.

Duffy Fischer: Yes, good morning. Just want to go back to S&C, if we could. You know, your guidance in May was kind of up low teens. You ended up high 20s on EBITDA, and at that time you were thinking you were going to get decent pricing. So I'm just trying to understand what changed from May to the final number that ended up so much better?

Marc Doyle: Yeah. good question, Duffy. I mean, you know, the bottom line is that the two biggest segments there, water and safety both over-delivered in terms of cost actions, productivity actions and a and pricing came in a little stronger than expected. So I would say the demand environment wasn't notably different. We knew it would be a strong environment, but the team really executed well around controlling what we could control, driving productivity and then continuing to deliver on the pricing side of the equation. And so you know, it's a good story for the quarter. Good execution. Again, second half, we're being a little cautious on some of the things that are a little bit less in our control, like the demand and pricing side. But, you know, I'm expecting that we're going to keep delivering in S&C and it'll be a good driver here in the second half, too.

Lori Koch: Thank you everyone for joining our call. For your reference, a copy of the transcript will be posted on DuPont's website. This concludes our call.

Operator: And this concludes today's conference. Thank you for your participation. And you may now disconnect.