DuPont

October 29, 2020
08:00 AM EDT

Operator: Good day and welcome to the DuPont Third Quarter Earnings Call. Today's conference is being recorded. And at this time, I would like to turn the conference over to Leland Weaver. Please go ahead.

Leland Weaver: Good morning, everyone. Thank you for joining us for DuPont's Third Quarter of 2020 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. These slides are posted to the Investor Relations section of DuPont's website and through the link to our webcast. Joining me on the call today are Ed Breen, Chief Executive Officer, and Lori Koch, Chief Financial Officer.

Please read the forward-looking statement disclaimer contained in the 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 2019 Form 10-K, as updated by our current and periodic reports, includes detailed discussion of principal risk and uncertainties which may cause such differences. Unless otherwise specified, all historical financial measures presented today exclude significant items. We will also refer to other non-GAAP measures. A reconciliation to the most directly comparable GAAP financial measure is included in our press release and posted to the investor page of our website.

I'll now turn the call over to Ed.

Ed Breen: Thanks, Leland, and good morning, everyone, and thank you for joining us. I'd like to begin by recognizing the tremendous efforts of our employees across the world to deliver another solid quarter in the face of this global pandemic. Lori will cover the specifics of the quarter shortly, but I'd like to take a few minutes to highlight our performance in a few key areas.

The timely actions that we took earlier this year to protect our employees, ensure the safe operation of our sites, strengthen our financial position and do our part to combat the pandemic enabled us to deliver strong results this quarter. My senior leadership team and I closely monitor developments globally to ensure we are taking the right precautionary measures to continue protecting our employees. Their safety and wellbeing remains our top priority.

Our intense focus on safety has enabled all 170 of our global manufacturing sites to continue operating according to plan. This, in turn, has given us the ability to deliver for customers during a period of continued uncertainty. Additionally, our balance sheet remains strong. In fact, so far this year, we reduced our commercial paper balance by approximately $1.4 billion to end the quarter with less than $400 million in CP, which was enabled by strong free cash flow and proceeds from the TCS and Hemlock divestitures we announced in September. Since the end of the quarter, we have further reduced our commercial paper balances and we look to make additional progress through year end. We also remain committed to doing our part to help during these unprecedented times. We continued to enable production of approximately 30 million Tyvek protective garments per month in an effort to provide healthcare and frontline workers with the protection they need to battle this global pandemic.

I'll cover more details regarding operational excellence on the next slide, but let me just say that I am encouraged by the progress that we are making here. We continue to remove structural G&A costs and execute on our working capital improvements, which helps drive our strong free cash flow and operating earnings improvements. We have moved faster and found additional pockets of G&A cost to streamline, enabling us to increase our expected cost savings from our 2020 initiatives from $180 million to $280 million.

I am also pleased with the progress that we have made in advancing the N&B & IFF transaction as well as the divestiture of Non-Core assets. In August, IFF shareholders voted overwhelmingly in favor of the transaction and we remain on track for a first quarter 2021 close. We are targeting February 1st.

With regards to Non-Core, in September we announced the divestiture of the TCS business, along with our equity interest in the Hemlock semiconductor joint venture for $725 million. Earlier this month, we also signed a deal to sell the biomaterials business for $240 million. These portfolio refinement efforts contribute to value creation by increasing cash flow, strengthening the balance sheet and focusing our portfolio in markets where we expect to see solid growth opportunity.

Moving to Slide 3, I'd like to provide more specifics on the progress we've made improving our cash generation and G&A productivity. Free cash flow conversion on a year-to-date basis was 140%. Through September, we have delivered approximately $1.9 billion of free cash flow versus $1.6 billion for all of 2019. This growth is primarily attributable to actions we have taken to reduce our capital expenditures and improve working capital. During the quarter, we significantly reduced inventory balances, and the teams focused on reducing past due accounts receivable also yielded positive results as we reduced our past due balances as a percentage of accounts receivable to 4%.

We've also lowered planned capital spending for 2020 to approximately $1 billion, nearly $500 million less than 2019 levels. As a reminder, we did not reduce any safety-related CapEx and have developed detailed plans for restarting our growth projects to ensure we are able to capture demand when markets fully recover.

We delivered more than 185 basis point reduction in non-manufacturing costs as a percentage of sales in the quarter, mostly in G&A. Of the approximately $150 million of cost savings that we realized, $100 million was structural in nature. As I'd mentioned, we now expect our 2020 in-period savings from current year actions to be $280 million versus our prior estimate of $180 million. Our cost actions are targeted towards G&A expenses and are aimed at enabling a highly productive, appropriately scaled cost

structure. Growth through innovation remains a key component of our strategy, and we continue to invest in critical areas like sales, application development and R&D so that we will be well positioned to capture growth when we fully emerge from the current market environment.

Before turning it over to Lori, I'd just like to make a few comments on some of the sequential trends we saw in the third quarter. We saw a 15% increase in operating EBITDA, as well as 200 basis point improvement in operating EBITDA margin versus the second quarter. This rebound was most significant within T&I as global auto builds were up more than 60% sequentially, stronger than our expectations going into the quarter. Additionally, our third quarter decremental margin was approximately 31%, an improvement of approximately 1,400 basis points versus second quarter led by strengthening top line and continued structural cost removal across the company.

I'll now turn it over to Lori to walk through some of the details for the quarter.

Lori Koch: Thanks, Ed, and good morning, everyone. Turning to Slide 4 and the financial highlights for the quarter. Net sales for the quarter were $5.1 billion, down 6% organically and as reported. Portfolio was neutral as acquisitions in Water Solutions offset divestitures in E&I and Non-Core. Likewise, currency was neutral in the quarter.

Pricing was mixed across the portfolio with gains in S&C and Non-Core, offset by price declines primarily in T&I. Price declines in T&I of down mid-single digits were in line with expectations. We expect similar T&I pricing through the fourth quarter as Nylon 6,6 prices have generally stabilized in the back half of the year.

On a regional basis, organic sales increased 3% in Asia Pacific versus the year-ago period with declines in the other regions. China sales in our core segments improved 14% versus the third quarter 2019 and 10% sequentially from second quarter 2020. I'll provide additional color on our segment top line results on the next slide.

We delivered operating EBITDA of $1.3 billion and adjusted EPS of $0.88 per share, well above expectations, driven by better than expected top line results in our E&I and T&I segments and more favorable product mix with continued strength in semiconductors, Tyvek protective garments and probiotics. Once again, our teams maintained strong cost control to deliver operating EBITDA declines in line with the sales declines on a percentage basis.

Our decremental margin was approximately 31%, also ahead of our expectations heading into the quarter. Excluding approximately $60 million of costs associated with temporarily idling facilities primarily in T&I and S&C, as well as gains in both the current and prior year periods, our decremental margins were in the mid-single digits, a significant improvement from the second quarter, driven by the improving top line and continued structural cost take-out.

As Ed mentioned, we are also delivering on our cash targets. Free cash flow of approximately $1.9 billion through the first 9 months of the year led to a conversion rate of approximately 140%.

In addition to the strong free cash flow, Ed mentioned the progress we have made on the Non-Core divestitures which enabled the reduction in commercial paper balances in the quarter. These actions have lowered our net debt position and improved our net debt/EBITDA ratio to below 3x.

Slide 5 provides more detail on the year-over-year change in net sales. Consistent strength across semiconductors, probiotics, home and personal care, Tyvek protective garments and water solutions, coupled with improvement in automotive and residential construction markets led to an overall organic sales decline of 6%, which reflects steady growth off the second quarter lows.

Several of our businesses have market-leading products which enable them to succeed despite global challenges presented by the pandemic. Within Electronics & Imaging, semiconductor technology delivered its third consecutive quarter of organic growth. Likewise, within Nutrition & Biosciences, our probiotics and home and personal care offerings continue to capitalize on robust global demand, each with double digit growth in the quarter. Finally within Safety & Construction, the Tyvek protective garment business is providing critical PPE to our medical communities and frontline workers, and the water business continues to provide market-leading innovation demanded by our customers. In the third quarter, sales in the water business are up low-single digits on an organic basis and up mid-teens percent as reported due to the acquisitions we have made in this space.

We also saw marked improvement in other key markets in the third quarter, most notably automotive and residential construction, which contributed to the sequential improvement in the top line. We estimate that global auto builds were down about 4% in the third quarter versus the same period last year, a substantial improvement from the historical lows in the second quarter and stronger than we anticipated. At down 9% for the quarter, our T&I volume performance is consistent with the improvement in market demand and the lag we expect due to the majority of our automotive sales going into the Tier 1 and Tier 2 suppliers.

There were also green shoots in residential construction, a market that represents approximately 40% of the shelter business within S&C. Our solutions to the residential construction market include Tyvek building wrap, Styrofoam insulation and Great Stuff insulating foam, which has also experienced strong retail demand from an increase in do-it-yourself projects. Despite tailwinds in residential construction, our shelter business was down versus last year due to ongoing softness in commercial construction, which makes up the remaining 60% of the shelter business.

Also contributing to the improvement in top line was demand for our materials that enable smartphone technology. Increasing material content, which now accounts for up to $4 a phone in the top end model, overcame an overall declining smartphone market and drove high-single digit growth in our Interconnect Solutions business as premium phone manufacturers prepared for model launches and holiday demand.

Overall, top line performance continues to be impacted by significant weakness in oil and gas, aerospace, commercial construction and select industrial markets. These market dynamics are most prevalent in the safety and shelter businesses within S&C, to health and biosciences business within N&B and across the Non-Core segment.

Before moving to the next slide, let me comment on our year-to-date performance. I am pleased that our teams focus on execution and operational excellence, two areas that Ed and I have been focused on since day 1. Through the first 9 months, our sales have declined 6% on an organic basis, and our focus on streamlining our overhead structure has enabled us to better maintain our earnings. Over the same time period, our EBITDA margins have declined just 7%, excluding costs associated with temporary idling facilities in the second and third quarters. Choosing to run these sites for cash was the right decision for the strength of the company and it is showing in the strength of our balance

sheet and cash flows.

Turning to the adjusted EPS bridge on Slide 6. Adjusted EPS of $0.88 is down 8% versus the same quarter last year, driven by lower volumes, costs associated with idling facilities and the impacts of Non-Core divestitures. These headwinds were partially offset by the delivery of cost savings. As Ed mentioned, our cost actions from the 2019 restructuring program, coupled with the incremental actions we are driving in 2020, contributed to approximately $150 million of savings in the quarter. The impact of portfolio actions is a net headwind primarily due to the absence of the gain on sale of the DuPont Sustainable Solutions business in the third quarter of 2019.We realized $0.03 of benefit from below-the-line items, primarily a lower share count due to share repurchases we executed in the second half of 2019 and early 2020, and lower interest rates enabled by reductions in commercial paper balances. These benefits were offset by a slightly higher base tax rate of 21%.

In summary, I would emphasize again what Ed said at the start of the call. Our team is laser focused on execution, and we are now consistently delivering on our earnings, cash flow and cost savings commitments. Through a period of significant uncertainty, we continue to progress our strategic priorities, which positions us well as we look ahead to 2021 to continue creating value for our shareholders.

As we show on slide 7, we will continue to strengthen our balance sheet with the anticipated closing of the N&B & IFF deal in the first quarter of next year as well as the closing of the Biomaterials deal in the first half of 2021. These transactions alone will generate over $7.5 billion of cash proceeds, nearly $2.5 billion of which we will have available after planned debt repayments to use to for creating shareholder value. As we said earlier, we have significantly improved our net debt position with the reduction of commercial paper balances, and we do not have any debt repayments until the fourth quarter of 2023, beyond those that we intend to satisfy with the proceeds from the N&B and IFF deal.

I am excited for what's ahead, and I commend our team for staying focused on execution to put us in a position to have the flexibility to capitalize on the opportunities for growth and shareholder value creation going forward. With that, let me turn it back to Ed for an update on the N&B and IFF transaction and some final comments on what we expect in the fourth quarter.

Ed Breen: Thanks, Lori. And now turning to Slide 8, we highlight the progress we've made since announcing the N&B and IFF transaction. During the quarter, we completed two additional milestones. In August, IFF shareholders voted overwhelmingly in favor of the transaction with more than 99% of the votes cast in favor of the deal. Then in September, N&B issued $6.25 billion of senior unsecured notes in a private placement. The net proceeds from the offering are intended to fund part of N&B special cash payment of $7.3 billion to DuPont. The net proceeds are held in escrow until the deal closes. The offering was more than 5x oversubscribed and resulted in a very favorable cost of borrowing for these notes. We continue to make progress regrading regulatory approval. And additionally, our integration planning remains on track as the teams work to a first quarter 2021 closing. I remain excited about this combination and confident that the new company will be well positioned for growth and to deliver sustainable value for shareholders.

Let me close with our financial outlook on Slide 9, which we have prepared assuming no substantial change in the slope of the recovery due to the pandemic. Obviously, this is a fluid situation with increasing cases and we are monitoring this closely. We expect to

deliver net sales for the year in the range of $20.1 billion to $20.2 billion and adjusted EPS in the range of $3.17 to $3.21.

Sequentially from the third quarter, normal seasonal declines in E&I from smartphone production cycles and S&C from the timing on North America construction activity will be partially offset by improvement in T&I as auto demand continues to recover, although at a much more gradual pace as compared to the prior quarter.

Our forecasted earnings also reflects the absence of a $30 million technology sale in E&I and the loss of earnings from Hemlock and TCS, which were divested in September. We will stay focused on driving improvements in working capital and delivering our cost savings commitments.

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

Leland Weaver: Thanks, Ed. Before we move to the Q&A portion of our call, I would like to remind you that our forward-looking statements apply to both our prepared remarks and the following Q&A. We will allow for one question and one follow-up question per person. Operator, please provide the Q&A instructions.

Operator: And if you would like to ask a question, please signal by pressing *1 on your telephone keypad. If you are using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. And as a reminder, please limit yourself to one question and one follow-up. Again, that is *1 to ask a question. And we will hear our first question from Steve Tusa with JP Morgan. Please go ahead.

Steve Tusa: Hey, guys. Good morning.

Ed Breen: Good morning, Steve.

Steve Tusa: Can you just maybe comment on the -- there was a bit of a change of language in the last filing with regards to the IFF transaction around your decision on whether you're going to spin or split. Can you maybe just talk about what your thoughts are there? Looks like maybe a split is more likely, but you want to obviously maintain the flexibility and optionality with the kind of whole cleanup spin dynamic. Maybe just talk about what your latest thoughts are on that front.

Ed Breen: Yes, Steve. We will be making that decision by mid-December. And we truly have not made a decision yet. I wouldn't put a leaning one way or the other on it. We took some language change because we wouldn't do a hybrid type approach. We'll pick one or the other, and that was the change in language. But no decision at this point in time. I wouldn't read anything into it.

Steve Tusa: Okay. And then just the follow-up would be on the 4Q. I think the implied downside to 4Q guide is a bit more than what you're losing from Non-Core and that gain in T&I. Is there anything else sequentially that's on an absolute basis kind of getting worse? I guess you mentioned seasonality in electronics. But is T&I basically -- did you overfill the channel before, or is that -- are you kind of like is it a timing dynamic where at some point in the next couple quarters that will snap back to the kind of line and recouple?

Lori Koch: Yes. So let me go first to the sequential. So there's no real change in market dynamics as we see it right now. So there's actually continued sequential lift in T&I kind of in the mid-single digit space. The drop sequentially in revenue and EBITDA is more driven by

seasonality. And it's normal seasonality that we see in our businesses. So, primarily it sits within smartphones. So as we get ready in the third quarter for the holiday demand coming up, we had a lot of sales in 3Q that would not be there in 4Q just due to normal seasonality. Additionally within our construction space, third quarter tends to be high just with the summer months driving a lot of the construction. So you'll see a little bit of deceleration there from a seasonal perspective.

So the decline that you're kind of getting at is roughly in the $100 million space sequentially 3Q to 4Q. About a third of that is related to the seasonal decline that we just discussed. Another third of it is we did have a gain on a technology sale in E&I in 3Q that won't be there in 4Q. And the rest, the largest primary piece is the sale of the Hemlock TCS assets that were sold in September.

So within T&I, we don't really see any level of channel -- high inventory levels in the channel. So if you see where we look year to date, our volumes are down about 15% in T&I versus the auto builds are down about 23%. So I think we're outperforming there. There's really, if you look at where we sell into as we mentioned on the call, we sell into the Tier 1 and Tier 2 players primarily. So it doesn't always exactly line up with the auto build number. You kind of got to look at it year to date to understand the lag. We're comfortable where we sit going in. No material changes from a market perspective as we see it right now.

Operator: And we will hear our next question from Scott Davis with Melius Research. Please go ahead.

Scott Davis: Hi. Good morning, guys.

Ed Breen: Hey, Scott.

Lori Koch: Hey, Scott.

Scott Davis: I'm kind of curious. You've been chipping at corporate and G&A really since we got involved in your story. And is this a kind of a -- is there an end game, I guess? Is this kind of every quarter you look at just trying to take levels down where you opportunistically can? Or is there a certain goalpost of where you want to get to and then you feel like that's the sustainable right level?

Ed Breen: Yes, Scott. I'd put it more in the category of chipping away at it. As we streamline some of our functions and capabilities, we can get -- do a little more streamlining on our overhead. We're putting in some digital tools and we're going to do a central finance tool and things like that really help us out. So, I think we're getting the best in class on our G&A. When you look at peer companies and all, I think we're doing a heck of a job there.

I would highlight one area we're not touching or taking down at all, as we said in our prepared remarks, is clearly our sales people around the world, our application engineering teams around the world. And we're going to continue to spend at the level that we've been spending at on the R&D front. So we want to come out of the softness in this pandemic period real strong with lots of new product introductions coming. So it's really going to continue to stay focused on the G&A piece of it.

And then I would really say that the next big focus -- and we're focused on it now, but we're really doubling down -- is going to be on the gross margin line and on our factory efficiency, our up times. And again, we're doing a fair amount of digital tools, they're not overly expensive, to really look at the predictive analytics at our facilities with a lot of AI

capability. And we really think we can do some fair amount of improvements there that hopefully help the gross margin line. So that's where you'll see some of the kind of the effort as we're going into 2021.

Scott Davis: Okay. Good. And then on the inventory side, another big drawdown this quarter. Where do inventories sit at kind of through the channel? And do you feel like we've gotten to the level where you want them, both your inventories and then obviously as you look through the channel?

Ed Breen: Our inventories have a ways to go still. Now by the sales pickup, that'll mute us a little bit here while in progress, but we're expecting nice progress again in the fourth quarter. We still have over a $500 million opportunity on inventory to get to where we think we can get to. So that's kind of our bogey out there. And again, we'll make good progress in the fourth quarter.

As far as inventory in the channel, Scott, I actually feel very good about it right now. As you know, the auto industry doesn't have a lot of finished goods. There's not any stuffing in the channel going on. And I really don't see it anywhere except maybe just a little bit in the electronics space. I think there's potentially, and I've heard some of our competitors talk about maybe a little pre-buying from some of the Chinese players nervous about what's going on geopolitically right now. But I don't even think that was a big number, and in the scheme of all of our sales in electronics, not significant. But that'd be maybe the one area where there's a little bit of that.

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

Bob Koort: Thanks. Good morning.

Ed Breen: Good morning, Bob.

Bob Koort: I was curious, on the T&I business you guys have been idling capacity, and obviously that's hurting your margins but helping your working capital. If we look to next year in a more normalized world, and I guess global auto builds are going to be up mid-teens and GDP up mid-single digits, can you talk about how powerful the incremental recovery might be and where those margins might get to relative to the 23% operating margin you just reported?

Lori Koch: Yes. So we see the T&I portfolio around the mid-20s from an EBITDA margin perspective in a normal market. So we've got some sequential upside as we head into next year, really driven by the items that you had mentioned -- so a top line recovery, as well as having a lot of the idle facilities behind us.

Bob Koort: And is there any update on the discussions with Chemours and Corteva in terms of your separation and indemnification agreements? Thank you.

Ed Breen: Yes. Well first of all, the arbitration is started up with Chemours on that. And there probably won't be any decision on that until kind of mid next year if you look at the timeline on it. But we continue to talk to each other about the settlement. In fact, Mark Vergnano, the CEO of Chemours and I actually just talked this Monday. A couple open points. We continue to get closer and then we'll see if we can get it to the finish line. So that's paralleling along while the arbitration starts.

Operator: Our next question will come from John Inch with Gordon Haskett. Please go ahead.

John Inch: Thank you. Good morning, everybody. Ed and Lori, good morning. What are the cost savings that spill over from actions taken in 2020 into 2021? And are you planning for prospectively more restructuring or would that potentially be too disruptive given all of the restructuring that's already gone on against the backdrop of what I would describe as a fledgling recovery?

Lori Koch: Yeah, so I think the savings that will trickle into 2021 is around $120 million, so we're targeting now $280 million of in-period savings. So on a run rate basis, that's about $400 million as we exit, so another $120 million next year. There's some headwinds that we'll face next year as well. Obviously, there will be some snapback in the temporary savings, but we really bias our actions towards the structural so we don't have a material headwind, but there will be some opening up of the economy that will tend itself with some T&E and some other stuff that we've really seen clamp down this year.

Right now, as Ed had mentioned, I don't see additional structural cost take-out. Really the opportunity for us is within gross margin and driving more productivity in gross margin. And second to that, continuing to drive our productivity and working capital. So we've made a lot of nice progress this year, we're up about, from a working capital trade perspective, only about $250 million year-to-date so we've nicely dug ourselves out of the hole that we got in earlier in the year and we're still targeting more than $500 million of working capital savings this year. But we still have a ways to go to get to best in class there.

John Inch: Thanks, Lori. I'm assuming the gross margin initiatives are probably longer term. Ed, I wanted to ask you also kind of for your strategic thoughts to do possibly even further S&C expansion into water. I'm thinking maybe technologies where you don't play currently such as UV or even say, I don't know, getting into production of equipment as well as the filtration products that you currently provide?

Ed Breen: Yeah, so John, we're very interested if we can in expanding the water business, so that would be one area. I don't want to comment on details because you get pretty specific in that there's not that many targets out there, so I won't get into that. But the water business would be one. There's some areas in the electronics business. I will mention that one, you know, 5G type stuff we would be interested in. But let me just say overall we're really looking at things I would put in the category of bolt-on acquisitions, nothing on a bigger scale in 2021, but could be several bolt-ons during the year if they make financial sense.

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

Jeff Sprague: Thank you. Good morning, everyone. Maybe just a couple of follow-ups on kind of segment level dynamics. First, on T&I, just thinking about the price pressure there I think is largely a function of kind of year-over-year dynamics. But I wonder if you can just give us a view on how you see pricing playing sequentially with the builds firming up. Do we move to a little more constructive price environment? Perhaps not as soon as Q4, but into the early part of next year?

Lori Koch: Yeah, we do. We do see a more constructive price environment. So I think the majority of the 66 headwinds that we've seen are behind us. So we did year-over-year headwinds in the third quarter and we'll expect year-over-year headwinds again in the fourth quarter, but those are really just a function of the price declines from the prior year where they were still quite strong. So sequentially, looking at about flat pricing. As we look into 2021, obviously we've done a nice job of taking advantage where we can of constrained environments and we'll be able to keep our eye on that to be able to see any gains that we could possibly pick up there.

I think also within T&I just overall, once the market normalizes and stabilizes, we to expect to get back to that 1.5x auto builds outperformance within that portfolio. You can see it year to date, so as I mentioned earlier, our T&I volume is down about 15% year-to-date versus auto builds being down 23% year-to-date, so you can see that outperformance and we'll look to continue that going forward once the market fully recovers.

Jeff Sprague: On the semi side specifically, you kind of spoke to the seasonal letup on handset within E&I. But semi has kind of continued to surprise to the upside kind of all year here. And there's a lot of consolidation starting to happen in that industry. Do you see anything that kind of disrupts your growth trajectory there? What's your view looking forward kind of a quarter or two there in terms of the end demand environment?

Ed Breen: Yeah, Jeff, I'll just comment on kind of October because I know that demand feels pretty good still on the semi side, so we're not really seeing any change from what we've been seeing the last few quarters. At least so far, going into the fourth quarter, that feels nice. And again, I just think the dynamics of work at home and what everyone is doing with datacenters and nodes and all of that, looks like potentially good momentum going into next year. But we'll see when we get closer to the end of the year.

I know one of our key competitors, a very, very good company and the CEO is a good friend of mine, he talked very bullishly about demand going into 2021 also. So that feels good. And again, the only thing in electronics, and you just mentioned it, was a little bit of the seasonality on the smartphones because we had such strong shipments in the third quarter for the shipments and launched of the new phones in the fourth quarter. But we feel good about the portfolio we have on the 5G side that as more phones are enabled 5G going into 2021, it's nice upside opportunity for us.

Operator: Our next question will come from John McNulty with BMO Capital Markets.

John McNulty: Good morning, thanks for taking my question. I guess the first one would just be, look, we've had about a month of kind of the COVID resurge and especially kind of out of Europe and a little bit less of that in the US. Any changes in demand pull that you've seen either positive for maybe some of your healthcare related products or negative as just some of the economy shut down? Anything that we should be thinking about and trying to think about extrapolating going forward?

Ed Breen: Well no change in any of the end market demand that we've talked about due to the rising cases, I'd say so far. It's all the same ones. I mean obviously auto is coming back really strong. Residential construction, we're now seeing those green shoots coming back, not surprisingly with what's going on in the resi market. And all the areas that are down kind of significantly, oil and gas, aerospace, commercial construction, they've all come up a little bit, but not significantly. So they're not dropping anymore, they're picking up slightly. But they're still off very negative numbers. So no, we haven't seen any change in October in patterns that we weren't expecting.

John McNulty: Got it. Okay, no, thanks for the color. Look, on the other side, you've gotten a lot of the noncore assets kind of out the pipeline. I guess does that, in terms of how you're thinking about going forward, does that free up time to look at kind of bigger, more strategic options? Or is it really right now a little bit more about running the business in admittedly a pretty volatile time with a lot of kind of puts and takes going on? How should we be thinking about where management is putting their time right now?

Ed Breen: Yeah, no, John, it's very much running the business. I keep telling the team, all-hands-on-

deck here. We want to string together a lot of consistent results. We've been doing that. We've got a ways to go here with some things still to get to best in class performance on like working capital. So no, it's more that and it's more looking at bolt-ons next year. And I would think as we get into next year, we'll be having a serious conversation with the board about share repurchase. Where we're trading at, where the new DuPont will be trading at, as N&B goes out of the portfolio. So that's the mode we're in.

Operator: Our next question will come from Steve Byrne with Bank of America. Please go ahead.

Steve Byrne: Yes, thank you. Was there anything in particular that provoked the House Environment Subcommittee to ask for some NPDES data from your part, from the legacy Parkersburg and the Circleville facilities? And do you have a sense of where their diligence is going these days with respect to PFAS contamination broadly?

Ed Breen: Yeah, Steve, I didn't read anything into it. We're going to supply all the information and answer all the questions. All that data is obviously available and it's been supplied to many federal agencies already. So it's just information we've given before. So we'll answer it in a timely manner. But maybe I would go a little bit broader to your question there, does EPA put some regulation in place. We're always asked that and that might be part of the push here. We are actually for that. We said that in front of Congress when we testified. Not everyone in the industry is for that, but we think it would be great to have a national standard set on where those levels should be at instead of it being a patchwork by state and maybe by municipality, who knows. And we actually think that would be very helpful that we're all targeting the same thing as we do remediation and all of that. So that's where we see a lot of the push at the federal level and we're all for that happening.

Steve Byrne: And just a follow-up on that, Ed, is a national standard something that you think would focus their attention on less on manufacturing sources and more on product use as a source of PFAS contamination? And is that where you see the potential benefit?

Ed Breen: No, I just think having a standard set out there that we're all marching to would be very helpful instead of having literally 50 different standards being set. And by the way, just to make a point that I make at every one of these calls, there's many more locations that had PFAS, but remember a high, high percentage of this is firefighting foam and I think you'll -- DuPont, we'll let that play out here in the South Carolina consolidation here and potentially we'll settle it or we'll let it go through the court system, but we never made the firefighting foam. So our work is really remediation at some of our sites where we did some manufacturing, which is a handful.

Operator: Next we'll hear from David Begleiter with Deutsche Bank. Go ahead.

David Begleiter: Thank you. First, on the cost savings, what drove the increase from the $180 million to $280 million for the full year?

Lori Koch: That was really a function of really clamping down on third party spend, so consultants and the like. And then we were able to accelerate a bit some of the off rolls that we had planned, benefiting the savings for this year.

David Begleiter: Got it. And Ed, with the IFF transaction three months away from closing, what are your updated thoughts on what's next for the DuPont portfolio? Specifically, perhaps on unlocking some value in E&I through maybe another RMT? Thank you.

Ed Breen: Yeah, David, as I said a few minute ago, we're operationally going to run new DuPont the

way we are. We want to clean up the noncore some more, so we're very focused on that. Also, from a portfolio standpoint. We'll be in an interesting position going into next year with the cash we're receiving from the IFF transaction. As Lori mentioned, we'll have at least $2.5 billion to $3 billion of excess cash available. So as I said, we'll be talking to the board about how we're going to deploy that to create shareholder value in 2021. And I would expect a few maybe bolt-on acquisitions would fit in there next year if they make financial sense for us to do.

Operator: Our next question will come from Mike Sisson with Wells Fargo. Please go ahead.

Mike Sisson: Hey, good morning. Nice quarter. In terms of Nutrition & Biosciences, your EBITDA growth is up high single digits or so this year, tough sales comps. So if you think about getting better growth in that business next year, where do you think EBITDA growth should sort of be as volumes return?

Lori Koch: Yes, so we've always thought that the N&B portfolio could get closer to the company average from a margin perspective, so looking at 26% or 27%. So they've got continued upside. A lot of that is really going to come from just a higher favorable mix. So as they grow probiotics, as they grow their enzyme portfolio, as they grow their meatless meat market, those are all very high margin product lines that will life the overall margin in the segment.

Mike Sisson: Great, quick follow-up then. If you do get to close the business on February 1, how do you feel about the integration synergy potential? You've had a year here to plan for it. Is there upside? And if there is, where could that be?

Ed Breen: Well, I won't talk about if there's upside, I should probably leave that to the IFF team when they do their earnings, that would not be fair of me. But I feel good about it. We've got multiple teams, as we did when we did Dow DuPont and all that, working on all the integration efforts. We're right on track. By the way, I must say I'm surprised we're doing as well as we are considering everyone is working at home. But every one of the work streams is right on track. Lori and I review it literally weekly with the IFF team. So we're ready to go on the synergy work that we've outlined publicly, and we'll get off to a very quick start.

Operator: Next we will hear from John Roberts with UBS. Please go ahead.

John Roberts: Thank you. Staying on N&B for a second here, food and beverage sales were down probably closer to 4% decline for the overall segment. Can you give us some regional and maybe application granularity on the decline in food and beverages?

Lori Koch: Yes. So a big piece of the decline was driven by sales into the food service space which we said is about 5% of total N&B and it was bigger obviously within the food and beverage segment. That was down kind of in the mid-teens. So that's really selling into sports arenas, cafeterias, so really the industries that have been hit hard by COVID. So nothing underlying there beyond that. And a lot of that was in Europe. So I think Europe was one of the markets that were hit hardest within the N&B portfolio and it's really back to the food services play. Also, another impact that we saw a headwind was just as travel has clamped down, we have a large market into like the chewing gum and mint space within our sweeteners portfolio, so as there's less travel, less people going through airports, that impacted the business.

John Roberts: And then do you think you'll report your yearend before February 1 close or after? And do we get N&B as a discontinued op in 4Q if you report after February 1? Just trying to

figure out the information flow we're going to get here over the next few months.

Lori Koch: Yes. So I would look at us mostly likely to be after the Feb 1 spin date, so we can report kind of on a remain co basis. When we report, disc ops will be a function of when we make the decision on spin versus split. So if we end up doing a split, you have to do disc ops earlier. If you end up doing a spin, you do disc ops as of the separation date.

Operator: As a reminder, that is star one if you would like to ask a question. Our next question will come from PJ Juvekar with Citi. Please go ahead.

PJ Juvekar: Yes, hi. Good morning, Ed and Lori. There is a big green movement happening in Europe, parts of Asia, California with both EVs and hydrogen. How is DuPont positioned for that trend in terms of your portfolio? Particularly, can you address the EV market?

Lori Koch: Yes, so this will obviously mostly be within T&I. There's also a play within S&C and E&I as well into electric vehicle space, so we're very well positioned. Obviously as the conversion continues towards hybrid and electric, you need a lighter car, so that advantages our T&I portfolio as we take out metal and replace it with polymer. Within S&C, we have a nice opportunity within the battery play. We have a use of our Nomex paper as a separator and then obviously within E&I as the enhanced electronics go into electric vehicles, really nicely positioned there. So it's obviously full electric vehicles are a small section of the total auto build production today, but growing very quickly and we're happy with the portfolio that we have.

PJ Juvekar: Great. Thank you. And I just have a follow-up on E&I. Intel has had some well publicized issues at 7 nanometer nodes and companies like TSMC are gaining share. Can you talk about your position relative to your customers and what kind of wins or losses you have at 7 nanometers? Thank you.

Lori Koch: I don't really want to speak to a customer level, but you can see by our results within the semi space that we're seeing really nice performance. So in this last quarter alone we were up 8%, 9%. So we've got a nice dispersion. We play with all of the big players. So as the consolidation continues, we're still continuing to be well positioned in this space. Also, as the layers, as you had mentioned, get more and more complex, that advances our portfolio. So the more layers, the more steps, the more polishing that has to be done, the more cleaning that has to be done, the more the complex the layers get with advanced nodes, that advantages our portfolio within as well. So I think we're nicely positioned to take advantage of growth there.

Operator: Our next question will come from Chris Parkinson with Credit Suisse. Please go ahead.

Chris Parkinson: Great, thank you very much. You've done an impressive job on the cash conversion front. I think we're all aware of the cash flow conversion targets over time which you've mentioned in the past. But do you have any brief updates on this front just given some of the portfolio changes as well as the ongoing incremental efforts on working capital? Thank you.

Lori Koch: Yes, so I think you're asking about our free cash flow conversion, you cut out a little bit, so I couldn't quite hear it. So yeah, we've made some really nice progress there so we're up to about 140% year-to-date. We were actually butting up against 200% in the quarter, really enabled by that strong greater than $300 million working capital productivity. So we'll look to keep that free cash flow conversion number greater than 90%. We've been right around 100% for the past several years, so I don't see any material headwinds there. And there's no real change in that metric as the portfolio changes, so each business was

generating nice free cash flow conversion.

From an ROIC perspective, the goal that we've had is to deliver 100 basis points of improvement annually, so we'll look to get that out as well. One important piece of that is, once the separation happened mid last year, we started to put ROIC into our comp metrics, so within a lot of the executive pay metrics, there's a piece of ROIC, so obviously that will drive continued focus along with the management deep dive within that space.

Chris Parkinson: That's helpful, and just as a quick follow-up, you've also been doing a pretty solid job on the cost front, including the recent increase and ultimately the percent that will be structural which you hit on a little while ago. How should we be thinking about the further cadence as we enter 2021? And are there any considerations for base cost inflation or just trying to figure out the net benefits on a per annum basis? Thank you.

Lori Koch: Yes, so we'll have another $120 million roughly on a run rate basis of savings into 2021. There will be offsets though as we had mentioned. So we are right now planning for a merit increase. We didn't have one in 2020, so we'll look to get back on track with that in 2021. We also will plan for a full bonus payout in 2021, so that will be a headwind to 2020 where we won't pay a full bonus. And T&E is another piece. We will control the snapback, so we've seen T&E plummet down to about $1 million a month. We used to be upwards of $10 million or so a month. So we'll see some snapback there, but we're looking to try to mitigate that pretty significantly, really cutting more so down on the internal travel versus the customer facing travel. So I think net net with $120 million of benefits that we'll see and the offsets we have just covered, we'll probably have a slight headwind from a cost perspective heading into 2021. Probably nothing like some of maybe the others in the space, just driven by our dedication to getting structural costs out versus the temporary that maybe some others have been doing.

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

Arun Viswanathan: Thanks. Good morning. My first question is on S&C. You've directed some more of your capacity more towards garments. Can you just talk about the tradeoff there? My understanding is that those are higher margin, but maybe that precludes you from participating as much in residential. And then as well, maybe you could just address the commercial markets and what you're seeing there in construction. Thanks.

Lori Koch: I think within Tyvek, so overall the entire Tyvek enterprise in the quarter was up in the low 20s. And so obviously we continue to see nice strength within PPE, that was up 50% plus. Within the Tyvek building envelope space, just given the seasonality within when the construction really takes place, we did see nice growth there. So we saw about 20% growth in residential Tyvek. Where the volume was taken from was more in the medical packaging space and that's really just a function of the reduction in elective procedures dampening the demand there. But overall, up 20% plus. We have been able to enable additional production to come out. Sequentially we were down a bit as we had to take the asset down for about 2 weeks or so, but year-over-year we are having more product coming off the line.

Ed Breen: And we're actually bringing up what we call Line 1, an older line that we had that it's not costing us too much to get that up and running. So we're bringing that up for incremental volume, so that's helping us.

Arun Viswanathan: Thanks. Then as a follow-up, could you also just talk about your plans for the proceeds? I

know that from N&B separation, I know that you've talked about buybacks for $2.3 billion of it and de-leveraging to the rest. Is that still your current thinking or how are you thinking about deploying that capital? Thanks.

Ed Breen: Yeah, $5 billion of that money from IFF N&B will be used to de-lever and pay down debt, so we'll be in a great shape balance sheet wise when that occurs. And then I would I think as I had mentioned, I don't want to get into exact numbers, but I would think we're doing share repurchase with where our multiple is at as we get into next year. We still want to gauge the effect of COVID and cases picking up and all of that, but that would probably be our leaning along with some bolt-on M&A.

Lori Koch: Yes, if I could just add on to that conversation, we really did a nice job and I want to highlight in the quarter, of reducing commercial paper. So we were able to use the proceeds from the Hemlock and TCS transaction as well as organic cash flow generation to take that down to just under $400 million for the quarter. We've taken it down even since the quarter close and we'll continue to do that, so that will be a nice tailwind heading into 2021, not only from an interest expands perspective, but just giving us flexibility to use those $2.3 billion of proceeds for either M&A or shareholder remuneration.

Ed Breen: Yeah, our goal is to get CP down to zero very quickly.

Operator: We will take our final question from Frank Mitch with Fermium Research. Please go ahead.

Frank Mitch: Thank you so much, and nice quarter. I just wanted to follow-up on IFF since part of the DuPont value proposition is tied up in IFF share price and obviously we've seen a 20% decline over the past month. Ed, in your discussions with management there, what's your confidence level that that can turn around? Any thoughts that you can share there?

Ed Breen: Yeah, Frank, I don't want to get into too much detail, but I think there's some technical going on right now with that. I've seen some reports. I think one of the analysts on this call wrote a nice report the other day. So I think there's some things going on short term, maybe over spends have created some pressure. But look, these sets of businesses, the IFF sets of businesses, the N&B, they do very well when there's distress in the system because of the end markets that we're in. So these are consistent performers. Yeah, there will be pockets of weakness like we saw because nobody is in airports buying chewing gum and all that. But generally speaking, they're going to do very well though this and we've got a lot of synergies coming up to create additional value for shareholders. So look, my gut is, all that settles down here rather quickly as we get closer and closer to getting the deal done.

Frank Mitch: Terrific, very helpful. Just a question on the guidance for the fourth quarter. Obviously yesterday we saw France and Germany implement lockdowns. How should we think about the "wave 2 lockdowns" being embedded into that guidance? How much of that was factored in? Any thoughts there?

Ed Breen: Well we knew Germany was talking about lockdowns when we just gave the guidance. It looks like France might be going now. But I think, look, if all of Europe locked down and there were lockdowns in the US, that's going to affect everybody out there. So no, we're not counting on that in the guidance that we gave. We see pretty far into the quarter now, but if there was massive lockdowns, that would probably affect December type numbers. And we just have to see. But as we sit today, and as long as there's not massive

lockdowns, that's the way we gave the guidance.

Leland Weaver: Thank you, everyone, for joining our call. For your reference, a copy of our transcript will be posted on our website. This concludes our call.

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