02-Nov-2021

DuPont de Nemours, Inc. (DD)

Q3 2021 Earnings Call

CORPORATE PARTICIPANTS

Patrick Fitzgerald
Investor Relations, DuPont de Nemours, Inc.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.

Jon D. Kemp
President-Electronics & Industrial, DuPont de Nemours, Inc.

OTHER PARTICIPANTS

Scott Reed Davis
Analyst, Melius Research LLC

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

John Walsh
Analyst, Credit Suisse Securities (USA) LLC

Steve Byrne
Analyst, BofA Securities, Inc.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC

John P. McNulty
Analyst, BMO Capital Markets Corp.

Christopher Parkinson
Analyst, Mizuho Securities USA LLC

John Roberts
Analyst, UBS Securities LLC

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Michael Sison
Analyst, Wells Fargo Securities LLC

Arun Viswanathan
Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by, and welcome to the DuPont Third Quarter 2021 Earnings and Strategic Update Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your first speaker today, Head of Investor Relations, Pat Fitzgerald. Thank you. Please go ahead.

Patrick Fitzgerald

Investor Relations, DuPont de Nemours, Inc.

Good morning, and thank you for joining us for DuPont's third quarter 2021 earnings conference call. On today's call, we will also discuss two strategic actions that we announced this morning. We are making this call available to investors and media via webcast. We will extend today's call to approximately 90 minutes to allow for Q&A related to both earnings and the strategic announcements.

We have prepared slides to supplement our comments during this conference call. These slides are posted on 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. Jon Kemp, President of Electronics & Industrial, will also join for the Q&A session.

Please read the forward-looking statement disclaimer contained in the slides. 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 2020 Form 10-K, as updated by our current and periodic reports, include detailed discussions of principal 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 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.

Edward D. Breen

Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

Thanks, Pat, and good morning, everyone, and thank you for joining us. In addition to our excellent quarterly results, I am pleased to have the opportunity today to talk about two significant strategic news we are making to further strengthen our portfolio and deliver long-term value for our shareholders. I will provide a brief overview of these announcements before Lori walks you through earnings, and then I'll be back to go into more depth on our announcements today.

Our teams delivered outstanding results in the third quarter, above the high end of our guidance ranges for sales, operating EBITDA, and adjusted EPS, highlighted by the actions we took to implement price increases to stay ahead of raw material inflation.

In the quarter, we delivered a neutral price/cost impact for the company, which is a proof point in effectively managing the levers within our control to deliver strong results. Market demand in nearly every one of our end markets was strong, and our supply chain organization executed well in a challenging environment to deliver for our customers.

Organic growth was up high-single to double-digits in every segment in the quarter. I am pleased by the quick actions our teams took to position us to continue managing the supply chain challenges and raw material cost pressures effectively as we head into the fourth quarter.

As Lori will cover in a few minutes, we expect to fully offset raw material price headwinds again in the fourth quarter. As I mentioned, we also announced two strategic transactions this morning, the acquisition of Rogers Corporation and our intent to divest a substantial portion of our Mobility & Materials segment, will significantly strengthen DuPont's position in our core high-growth, high-margin markets with a focus on electronics, water, protection, industrial technologies and next-generation automotive.

In addition to focusing the portfolio, these strategic actions will accelerate our top line growth, operating EBITDA margins, and significantly improve our earnings stability. The combined transactions will allow us to benchmark extremely well against best-in-class multi-industrial peers, thereby resulting in long-term value creation.

I will cover the details of the Rogers and M&M transactions in a moment but, first, let me turn it over to Lori to discuss the quarter as well as our outlook for the remainder of the year.

Lori D. Koch

Chief Financial Officer, DuPont de Nemours, Inc.

Thanks, Ed, and good morning, everyone. As Ed mentioned, customer demand across almost all of our end markets remained strong in the third quarter. We saw continued improvement in many of the industrial end markets adversely impacted by the COVID-19 pandemic as global economies continued their recovery.

Organic growth in the quarter was up 16% versus 2020. We delivered net sales, operating EBITDA, and adjusted EPS above the high end of our third quarter guidance. In addition, we had strong cash flow generation and returned $657 million of capital to shareholders during the quarter through $500 million in share repurchases and $157 million in dividends.

We now have $875 million in share repurchases remaining under our existing authorization which expires next June, and we expect to complete the full year 2021 with about $2 billion in share repurchases, which is at the high end of the range that we provided earlier this year.

Net sales of $4.3 billion were up 18% versus the third quarter of 2020, up 16% on an organic basis. Organic sales growth consists of 10% volume improvement and 6% pricing gains, reflecting the continued actions we are taking to offset inflationary pressure. Excluding the impact of metals, price was up about 5% during the quarter.

A 1% portfolio tailwind reflects the net impact of strong top line results related to our acquisition of Laird Performance Materials and headwinds from the non-core divestitures. Currency provided a 1% tailwind in the quarter.

Overall sales growth was broad-based and reflects high-single to low-double-digit volume growth in all three of our reporting segments. Double-digit organic growth within Asia Pacific, Europe, and North America reflects continued strong demand in our key end markets.

From an earnings perspective, we delivered operating EBITDA of $1.09 billion and adjusted EPS of $1.15 per share, up 20% and about 90%, respectively, versus the year-ago period. The earnings improvement was driven by strong volumes across all three reporting segments and earnings uplift from the Laird Performance Materials acquisition.

The swift pricing actions that we implemented earlier this year in the face of raw material inflation continued to benefit our operating results. For the total company, our selling price increases during the quarter again offset raw material inflation. Gross margin was up about 160 basis points versus last year, reflecting increases in both M&M and E&I.

Operating EBITDA margin of 25.5% was in line with our third quarter guidance expectations and reflects 50 basis points of margin expansion versus the prior year.

Incremental margins were about 28% during the third quarter versus last year. However, if you exclude the impact of price and cost, our operating EBITDA margin for the quarter would have been nearly 27% and incremental margin would have been over 40%, reflecting very strong underlying operating performance.

I have also mentioned previously that we track our operating performance for our core results on an underlying basis versus 2019, given the unique nature of 2020 and certain discrete items that impacted our operating results in the prior year. In comparing our third quarter results to pre-pandemic levels, sales for our core businesses were up 15% versus 2019, with operating EBITDA leverage at 1.4 times on an underlying basis despite the global challenges around supply chain pressures and raw material inflation.

From a segment earnings perspective, E&I delivered 13% operating EBITDA improvement on strong volume and better-than-expected results from Laird as we continue to integrate this business with our current electronics offerings.

The year-over-year comparison includes a headwind resulting from a technology sale in the prior year. Adjusting for this item, operating EBITDA was up about 20%, with margins essentially flat between both periods.

In W&P, operating EBITDA increased 12% versus the year-ago period on volume growth, primarily reflecting recovery in industrial end markets for aramid fibers and the absence of charges related to temporarily idle facility in the prior year. We were proactive in implementing pricing actions during the quarter in W&P. However, these actions were more than offset by raw material inflation and logistics costs, which resulted in headwinds to margins and operating leverage.

We expect sequential price improvement as we continue to implement increases in response to raw material inflation. M&M delivered 75% improvement in operating EBITDA or about 2.5 times operating leverage compared to the year-ago period. The improvement reflects higher volumes across all end markets, net pricing gains in response to raw material inflation, and the absence of charges related to temporarily idle facilities in the prior year.

For the quarter, cash flow from operating activities was $842 million and capital expenditures of $208 million resulted in free cash flow of $634 million. Free cash flow conversion of 112% was up significantly compared to the second quarter.

Turning to slide 4, which provides more detail on the year-over-year changes in net sales for the quarter. Strong customer demand across almost all of our end markets, including the continued recovery in many industrial end markets and the efforts of our supply chain organization drove organic sales growth of 16% during the third quarter.

In E&I, volume gains delivered 9% organic sales growth for the segment, led by double-digit volume gains in both Industrial Solutions and Semiconductor Technologies. The sales growth in Industrial Solutions reflects strong demand across all product lines, but most notably in OLED displays for new phone and television launches, medical silicones in health care and Kalrez seals within electronics along with a continued recovery in aerospace.

Semiconductor Technologies continues to benefit from robust demand driven by the ongoing transition to more advanced new technology and growth in electronic megatrends. And we expect these strong demand trends to continue in the fourth quarter.

Within Interconnect Solutions, organic sales decline in the mid-single-digits reflects the anticipated impact of the shift in demand related to premium, next-generation smartphones to the first half of this year, along with softness in automotive end markets due to the semi chip shortage. We expect these headwinds to continue in the fourth quarter. However, we do expect organic growth of ICS to be up mid-single-digits on a full year basis.

For W&P, 11% organic sales growth during the quarter consisted of 9% volume improvement and 2% pricing gains. Continued recovery in industrial end markets resulted in significant volume improvement for Nomex and Kevlar aramid fibers within Safety Solutions, which was up double-digits on an organic basis.

For Shelter Solutions, continued recovery in commercial construction led by demand for Corian surfaces contributed to high-single-digit organic growth. In addition, we saw continued strength in North American residential construction market for products including Styrofoam and Tyvek house wrap and the retail channel for do-it-yourself applications.

Organic sales for Water Solutions were up low-single-digits during the quarter as global demand for clean water technology remained strong. However, logistics challenges do remain and have impacted our ability to meet demand. Pricing gains for W&P during the quarter reflect actions taken to mitigate raw material inflation, mainly within Shelter and Safety.

M&M top line results reflect another strong quarter with organic sales growth of 28% on a 16% price increase and 12% volume improvement and included double-digit organic growth in each of Engineering Polymers, Performance Resins and Advanced Solutions.

Throughout the year, our M&M segment has been the most significantly impacted by raw material inflation. As such, the 16% price increase reflects the continued actions we have been taking to offset these higher raw material costs and also reflects higher metals pricing in our Advanced Solutions business. Excluding the metals impact, price was up about 12% during the quarter.

Looking ahead, while our global supply constraints of key raw materials have improved in M&M compared to earlier in the year and auto demand remained strong among consumers, we do expect softness in the fourth quarter as the global chip shortage continues.

Turning to slide 5. Adjusted EPS of $1.15 was up about 90% from $0.61 per share in the year-ago period. Higher segment earnings resulted in a net benefit to EPS of about $0.20 per share, driven by higher volumes and strong results from Laird.

As I mentioned, we were price-cost neutral during the quarter given the pricing actions we have been taking to offset raw material inflation. Our lower share count continues to provide a benefit to adjusted EPS, specifically a $0.33 benefit for the third quarter.

Benefits from lower interest expense in the current quarter from delevering actions earlier in the year was mostly offset by a higher base tax rate compared to the last year. For full year 2021, we expect our base tax rate to be about 21%.

Turning to slide 6, I'll discuss our outlook and guidance for the full year 2021. We expect strong underlying demand trends to continue in the fourth quarter in almost all of our end markets and have seen signs of these trends in the month of October. However, we are starting to see the ongoing semiconductor chip shortage impacts our downstream customers' ability to produce, which is creating some deceleration in order patterns, primarily in automotive end markets, where IHS auto builds estimates for the second half have been cut by 17%.

Due primarily to the softness attributable to the semiconductor chip shortage, we are lowering the midpoint and narrowing the range of our full-year guidance for net sales, operating EBITDA, and adjusted EPS compared to our previous estimates.

At the midpoint of the ranges provided, we now expect net sales for the year to be about $16.37 billion, down from the midpoint of our previous estimate of $16.5 billion. Similarly, we now expect operating EBITDA and adjusted EPS to be about $4.15 billion and $4.20 per share, respectively.

This is not a demand or market share issue or our inability to continue to pass on prices or effectively manage our global supply chain. As our third quarter results demonstrate, we have successfully executed on each of these. This is purely a result of the global semiconductor shortage, which is impacting our customers' ability to produce and thereby pushing out demand.

With that, let me turn it back over to Ed.

Edward D. Breen

Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

Thanks, Lori. I'm excited to share with you more detail on the two significant strategic news we announced this morning, which will further strengthen our portfolio and deliver long-term value for our shareholders. The announcements of an agreement to acquire Rogers Corporation and our intent to divest a significant portion of our M&M segment are substantial moves, advancing our strategy to shift the portfolio towards higher-growth and higher-margin businesses, while significantly enhancing the earnings stability of the company.

The acquisition of Rogers will build on the Laird Performance Materials acquisition that we closed July 1, adding another high-quality business that expands our leading market position across highly attractive end markets. Rogers is a market leader in each of their primary product categories and brings a world-class organization with differentiated technology, innovation capabilities, technical expertise and deep customer relationships, the same value proposition that differentiates our DuPont businesses.

Rogers operates in end markets where we have already established leading positions, such as consumer and mobile electronics, and in others that are adjacent to our businesses, such as 5G infrastructure and electric vehicles, enabling us to offer an even more attractive total value proposition to a broader base of customers and creating the opportunity to compound growth over time given complementary products and markets.

While M&M has been the market leader in high-performance thermoplastics serving automotive, electronics, industrial and consumer markets, we believe DuPont is no longer the best owner for this asset. By separating M&M from the rest of the portfolio, we are better positioning the business to expand on its leadership position in these markets and continue to tackle some of the industry's most critical challenges, such as vehicle safety and fuel efficiency.

We will leverage existing tax attributes to complete a highly-efficient cash sale of the M&M business, providing ample funding to finance the Rogers acquisition, as well as further M&A and share repurchases, while maintaining a strong investment-grade credit rating. We have a few key targets, which like Laird and Rogers, we have been studying for a few years that would be excellent additions to our portfolio.

Following the completion of the intended Rogers acquisition and the planned divestiture of M&M, DuPont will focus on key emerging technologies and have enhanced top-line growth. Our participation in the auto markets going forward is much more connected to high-margin, advanced technologies, enabling long-term secular trends like hybrid and electric vehicles as well as advanced driver systems.

A large portion of our auto exposure will be aligned to EVs and ADAS, both of which are growing at a significant pace. This improved balance in our end markets will drive further consistency in our results and allow us to deliver best-in-class results among our multi-industrial peers. Strengthening our position in clean energy and electric vehicles, combined with our existing positions in water, safety and protection technologies will continue to advance our customer sustainability priorities.

Slide 8 shows the modeling we have done for the company, assuming the completion of both the M&M divestiture and the Rogers acquisition, including full achievement of the planned cost synergies. As you can see, pro forma DuPont will benchmark well above our top multi-industrial peers on both organic growth and EBITDA margin, and in line with this high-performing peer set on cyclicality, which we measure as peak to trough earnings volatility.

Our historical sales growth for the new portfolio will improve by 40 basis points to 3.8%, which is nearly two times the growth rate of the top peers. This growth is driven by our exposure to high-growth end markets. For example, the semiconductor materials market is expected to grow at 4% to 6% per year, which is evidenced by the significant investments in new fabs we are seeing in all regions of the world.

Our $2 billion Semiconductor Technologies business, which holds leading positions in materials for both wafer production and packaging, is positioned to outgrow the market by 200 to 300 basis points. Likewise, our $1.4 billion water business operates in markets that are expected to grow high-single-digits driven by the global response to concerns such as water scarcity and circularity.

The acquisition we are making also increases our exposures in high-growth markets such as EV, which is a market growing at 30% per year. Rogers' high-performance elastomers, specialty busbars and thermal substrates complement our existing materials such as gap fillers, adhesives, and Nomex papers.

In the new portfolio, the strength of these businesses will accelerate the performance. In 2020, our top line for the core business declined about 5%, which was a solid result compared to our top multi-industrial peers which were down about 8%. Our new portfolio would have declined less than 3% during the worst of the recession in recent years, a substantial differential versus the peer set.

We have taken several actions to drive top quartile EBITDA margins at DuPont. The M&M and Rogers transactions will deliver an additional 140 basis points of margin improvement on a 2021 basis, putting us well above our top multi-industrial peers.

The new portfolio is a collection of specialty businesses underpinned by innovation, customer relationships, and manufacturing excellence, a combination that supports robust, sustainable margins.

I'm also excited about the consistency these transactions will bring to our results. Strong ties to secular growth drivers will limit the earnings volatility of the company throughout the cycle. You can see the earnings volatility on the DuPont portfolio was significant from 2019 to 2020, primarily associated with the M&M segment. The same is true as we look back further where the cyclicality in the portfolio was driven by M&M.

Looking forward, our portfolio, have minimal exposure to commodity feedstocks and, as a result, our cyclicality will significantly improve by 700 basis points to be in line with the top peers.

In addition to comparing to our top multi-industrial peer set, we also looked at how the new portfolio will benchmark against the entire set of 24 multi-industrial companies. The results are the same. We will benchmark well above the median of the entire multi-industrial group on both growth and margin and in line on cyclicality.

With a more clearly-defined portfolio and by improving the top line growth, EBITDA margins and cyclicality of the company to be well above our peer set, I am confident the quality of our businesses will be recognized which will translate into a valuation comparable to top peers.

Getting DuPont to this point has been a multiyear journey, with decisive moves aligned with our value-creation levers of active portfolio management, a best-in-class operating model and disciplined capital allocation.

Slide 9 shows the actions we have taken to transform the DuPont portfolio to a combination of world-class businesses centered in long-term secular high-growth areas. Our strategy is intentional and included strategic decisions to shift the company to higher-growth, higher-margin businesses with less cyclicality, while also pursuing acquisitions to strengthen our leadership position and innovation capabilities in the secular growth areas of electronics, water, protection, industrial technologies and next-generation automotive.

Our portfolio transformation started with the identification of non-core businesses, where our innovation, technical expertise and close customer relationships no longer drove a competitive advantage within the DuPont portfolio. We have been successful at identifying great owners for a majority of these businesses and our work continues.

We expect to close the sale of the Clean Tech business before the end of the year for around $510 million. Earlier this year, we finalized the separation of the N&B business in an RMT transaction with IFF, creating a powerhouse in the food, beverage, health and biosciences markets.

Separation of N&B provided a lift to the top-line growth and operating EBITDA margins at the DuPont portfolio as N&B was at the low end of the portfolio on both measures. This was an unmatched opportunity to advance the

DuPont strategy, including the receipt of $7.3 billion in tax-free proceeds, which we redeployed to create shareholder value and position N&B and IFF for future success.

Today's announcement of our intent to divest a significant portion of the M&M segment is the next step to advance our transformational strategy by increasing the resiliency and earnings stability of our portfolio. Throughout, we have carefully assessed acquisition targets, which can strengthen our leadership positions in the secular areas of electronics, water, protection, industrial technologies and next-generation automotive.

As I have said before, we are strategic in our approach and only pursue targets that can be justified financially and that operate in our existing markets to minimize integration and execution risks. We prefer acquisitions that provide a significant synergy opportunity, similar to what we saw with the Water acquisitions we completed in late 2019, the Laird acquisition earlier this year and the intended acquisition of Rogers. We also only pursue targets where innovation and our technical capabilities set us apart, which is the case for both Laird and Rogers.

Our transformation strategy has also been underpinned by operational improvements. We have made fundamental changes in the way DuPont is run. We have the full P&L accountability into the businesses by moving oversight of manufacturing, operations, and R&D under our business presidents. We spend approximately 4% of sales on R&D, and we no longer operate a central R&D function. Instead, we have empowered our businesses to allocate R&D dollars to the projects that are most critical to their growth and then hold them accountable for delivering results.

The same is true for capital spending, the majority of which has been focused on capacity-constrained areas.

Throughout our transformation, the strength of our balance sheet has been and remains a priority. Following the N&B separation, we delevered our balance sheet to maintain a debt-to-EBITDA ratio and credit rating that provides us flexibility.

We also continue to control our costs at both our manufacturing facilities as well as in our corporate functions. We have been prudent in taking cost out of our G&A line and today have a best-in-class cost structure.

The work in our manufacturing facilities is ongoing through continuous productivity and asset reliability improvements using new digital tools, which is an integral part of our operating plants today.

The combination of focusing the portfolio and operational improvements, have been part of our strategy to unlock shareholder value and strengthen the company. The M&M and Rogers announcements are significant strategic steps in our transformation.

I'll move to slide 10 to provide more details on the Rogers agreement. Our modeling of Rogers is based on our 2022 estimated EBITDA of $270 million, which we are highly confident the business will achieve based on a thorough diligence process, including a detailed review of their projections and assumptions.

The purchase price of about $5.2 billion represents a 19x EBITDA multiple based on 2022 estimates before synergies. The multiple is expected to be below 14x after cost synergies. We are highly confident in the synergy number of approximately $115 million and our ability to achieve most of the forecasted synergies by the end of 2023, within 18 months of closing.

We expect Rogers to be accretive to top line growth, operating EBITDA, free cash flow, and adjusted EPS upon closing. We expect sizable revenue synergies from the combination of E&I, Laird and Rogers. But consistent with how we justify old deals, we have not assumed any revenue synergies in our modeling.

And we expect closing to take approximately six months, putting us in the second quarter of 2022. Because the Rogers transaction will close before we expect the M&M divestiture close, in funding the acquisition, we expect to prioritize pre-payable debt which can be retired upon receipt of the M&A proceeds to return our leverage to more normal levels.

Slide 11 provides more detail on the synergy opportunities. DuPont is in a unique position to extract value from this combination through the synergy opportunity that comes not only from having one of the largest electronic material businesses in the industry but also from the acquisition of Laird that we completed a few months ago.

We looked across all three organizations to determine where there were synergy opportunities. As is the case in many of our transactions, where we combine businesses, we have complementary product offerings in similar segments. We expect significant synergies in procurement spend as well as G&A costs. Because Rogers is a public company, we will also realize savings associated with folding them into our structure.

Our anticipated Rogers cost synergies of $115 million, combined with the cost synergies we anticipate from the Laird acquisition, total approximately 6% of the combined revenue of our Interconnect Solutions business, Laird and Rogers, which is a very achievable synergy target. As I mentioned, we expect to achieve most of these synergies with 18 months of closing.

Turning to slide 12, I'll provide more detail on the business. Rogers Corporation is a $950 million business with broad end market exposure. We expect Rogers' top line to grow in the high-single-digits, accelerated by leading positions in the rapidly growing categories of electric vehicles and advanced driver systems. The benefits of the planned synergies will deliver uplift to the EBITDA margins across all three businesses.

Rogers has two operating segments with leading positions in each. The first segment is Advanced Electronic Solutions, which includes the high-frequency circuit board laminates business and the power electronics business. Rogers' second segment is Elastomeric Material Solutions.

The high-frequency circuit board laminates business complements our existing printed circuit board business within Interconnect Solutions. This is approximately a $300 million business that manufactures copper clad laminates for high-frequency circuits using ADAS radars, 4G/5G base stations and military communications.

Also included in the Advanced Electronic Solutions segment is the power electronics business, which includes both ceramic substrates and specialty busbars for high-power conversion used in applications such as electric motors for trains, ships, automobiles and wind turbines.

Specialty busbars are used instead of cable harness systems in high-power conversion applications when highly stable and reliable power conversion is critical. This is about a $250 million business today, but poised for significant growth with exposure to next-generation technologies, including battery applications for hybrid and electric vehicles.

The second segment is the Elastomeric Materials Solutions segment, approximately a $400 million business which manufactures precision foams and silicon materials with high reliability and high purity for cushioning, sealing, impact protection and vibration management across the number of growing end markets. This segment also has high exposure to electric vehicles for battery applications.

On slide 13, you can see the significant offerings in the combined entity through the examples of the electric vehicle, 5G infrastructure, consumer electronics and clean energy. The increased opportunity in electric and autonomous vehicles from the combination of Laird and Rogers adds to DuPont's existing material offerings into the electric vehicle.

In a segment that is growing 30% per year, this is a tremendous opportunity to increase our share of wallet with offerings such as gap fillers, adhesives and Nomex paper from DuPont; high-performance elastomers, specialty busbars and thermal substrates from Rogers; and electromagnetic shielding and thermal management solutions from Laird.

Likewise, Laird and Rogers expand our offering in consumer electronics, where DuPont is already a leading material supplier through all three businesses within the E&I segment: Semiconductor Technologies, Interconnect Solutions and Industrial Solutions. EMI shielding, thermal interface materials and multifunctional solutions from Laird as well as high-performance elastomers from Rogers will make us an even more complete material supplier to leading OEMs. The combined application engineering and design expertise will be unmatched in the industry.

We are very excited about the technical skills that will transfer to DuPont through both of these acquisitions which will enable the businesses to continue working with customers to solve their most critical challenges using our combined portfolio of advanced technologies, a hallmark of all three companies.

Customers in these industries demand this level of sophisticated innovation and partnership. You can see how the acquisition of Laird and Rogers supports our strategy to expand our presence in high-growth secular end markets and creates opportunity for compounding growth across related products and markets.

Slide 14 shows the combination of the Laird acquisition and the Rogers acquisition is highly complementary and can expand our addressable markets within key electronics segments by 50%. The addition of Laird and Rogers provides an entry way into markets such as clean energy, wireless infrastructure and defense electronics, where we previously had little exposure but will now have distinct competitive advantages.

We see further opportunities for growth by leveraging the DuPont technologies across these additional electronics markets. The timing could not be better to enter these markets. The world is making significant investments in 5G infrastructure, clean energy and hybrid and electric vehicles, to name a few. These investments are leading to rapid growth in these areas.

Rogers has been making significant investments in these areas and has a rich pipeline of offerings that will support the next-generation technologies. The acquisition creates an exciting opportunity to capture this growth, which we think will be compounded by leverage of the combined E&I, Laird and Rogers platforms.

Moving to the intended M&M divestiture on slide 15. At DuPont, we have a proven history of adapting the best owner mindset for each of our businesses. We constantly scrutinize our portfolio to ensure fit with our business objectives and to create as much long-term value as possible for our shareholders, customers and employees.

By announcing that we have initiated a process to divest the majority of our M&M segment, we are committing to do just that: finding the right owner for a tremendous asset. The business to be sold predominantly includes the Engineering Polymers and Performance Resins lines of business.

Approximately $700 million of current year revenue, M&M segment is not included in the scope of the divestiture and includes the automotive, adhesives and multi-based businesses, which align nicely with our offering for EVs and industrial technologies.

The portfolio to be divested is expected to generate revenue this year of about $4.2 billion and about $1 billion of EBITDA. M&M is an industry-leading combination of high-quality businesses with best-in-class technology and application development, deep customer relationships, brands and manufacturing excellence.

The business is well positioned to capitalize on the continued transition to hybrid electric vehicles and other emerging megatrends. The business is also poised to outperform its peers through the cycle, with a lean G&A structure, efficient manufacturing processes and a reliable supply chain of key raw materials.

We expect that the divestiture process will move quickly. In fact, we will launch a marketing process in the coming days. We have considered multiple deal structures as part of the strategic review. We believe a transaction that maximizes the net cash proceeds to DuPont will enable us to build on our core areas of strength, like the Laird and Rogers transaction, and create significant value for our shareholders. I look forward to updating you as our process advances.

I'll wrap up with a few comments on why I'm excited about their future at DuPont on slide 16. With the completion of the Rogers acquisition and the M&M divestiture, DuPont will be building around our core foundational pillars, including electronics, water protection, industrial technologies and next-generation automotive.

Each of these areas is experiencing rapid growth as a result of significant secular tailwinds with long-term growth drivers, from high-frequency connectivity in the most advanced technologies to water scarcity in some of the most remote parts of the world, the technical demands of our customers are high and we have a unique advanced technologies to partner with them to solve these global challenges.

The actions we have already taken, along with those we announced today, enable us to strengthen our leadership position in each of the markets we serve. I am confident this will lead to significant opportunities for employees and unmatched solutions for our customers.

We are also creating an opportunity for significant value creation for our shareholders. As I mentioned previously, the combined transaction enhanced our financial profile through higher growth, higher margins and significantly more stability. We will be positioned to outperform throughout the cycle. These are indicators of a strong, healthy and vibrant company, and I'm confident we will benchmark with the best of our multi-industrial peers.

Our capital allocation will remain balanced, returning value to our shareholders through a consistent dividend, that we expect to grow with earnings and share repurchases, as well as a strong balance sheet have been and will continue to be priorities for DuPont. We will also continue to invest in our business to grow organically and support their growth through select and targeted M&A.

With that, let me turn it to Pat to open to Q&A.

Patrick Fitzgerald

Investor Relations, DuPont de Nemours, Inc.

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.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Scott Davis from Melius Research. Your line is now open.

Scott Reed Davis
Analyst, Melius Research LLC

Q

Good morning, Ed Breen.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Good morning.

Scott Reed Davis
Analyst, Melius Research LLC

Q

Good morning, Lori and Jon.

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.

A

Good morning.

Jon D. Kemp
President-Electronics & Industrial, DuPont de Nemours, Inc.

A

Good morning.

Scott Reed Davis
Analyst, Melius Research LLC

Q

Quite – it sounds like you guys have been busy. Instead of asking a kind of technical question here, I mean, the process that you're going to run on Mobility, if it doesn't come out as you'd like, would you consider spinning the business? Is that one of the options that's in play here?

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Yes. Look, we're highly, highly confident there'll be a sale here. There's – we already know people who are interested in this asset. We've had many calls, even in recent times, about the asset. So it's going to sell. We're starting – literally starting the process in the next few days.

And one of the great things about the sale of this, it's really extremely tax efficient for us, which makes it very attractive. The tax leakage on this deal will be mid-single-digits to high single-digits. So it's pretty incredible that we're able to accomplish that. So I'm highly confident it's going to sell.

I would say – and by the way, I would say, just targeting for your thinking that we close a deal like that around October of next year. By the way, I also am highly confident, which is kind of surprising, in everyone some of the parts of DuPont, M&M is by far the lowest multiple in the company, and yet we will sell it for more than the multiple that DuPont trades at today.

I would also say, if you just benchmark DSM's coming to market, I think a lot of you guys and analysts have it going for at least 11 times. Our asset is a way better asset. It's better on growth, it's better on margins. It's much more global, bigger. And so I don't – I'm confident it will sell for even more than the company literally currently trades at now.

Scott Reed Davis
Analyst, Melius Research LLC

Q

Good. And then, Ed, as a follow-on. Can you talk through the synergies with Rogers? Is this standard kind of G&A stuff? Or is there something kind of more there that is – that you can talk us through? [ph] And I'll pass it on after that. (43:54)

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Yeah. It's pretty similar to our other deals. And by the way, it's a very achievable number for us, as we said in our prepared remarks. We took ICS, which is one of our divisions, this will be in the E&I segment, we used ICS, we used Laird and the Rogers deal, and adding in the Laird synergies, by the way, at 6% of revenue. So we're highly confident. We've been scoping this out for a long time. One of the nice things here, I guess I say nice, is it's a public company. So all those costs go away which are pretty significant obviously. And that just happens.

Then a big chunk of it is G&A and functional costs, streamlining it into our structure. We get some procurement savings also. And then we've got some facility consolidations. We've got sales offices all overlapping each other globally, as an example. So we've scoped it out in a lot of detail. Obviously, we'll get more detail once we can sit down even more with the team.

And I would also add, we had just closed on the Laird deal July 1, and we had announced $60 million of synergies with Laird. And the team is now at $63 million, and that's literally line-by-line, who's doing it? When are we getting it? What's the payback? So we have line of sight. And hopefully, we're being conservative here on the combo at $115 million of synergies for Rogers.

Operator: Okay. Your next question comes from the line of Steve Tusa from JPMorgan. Your line is now open.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Hey, guys. Good morning.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Steve, good morning.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

So just quickly on the results. It sounds like kind of the majority of the 4Q cut is really kind of auto production-related? And then I have a follow-up on the strategic stuff.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Yeah. Look, Steve, it's all auto. It's all centered on the semiconductor. We did not see it in the third quarter. If you could tell by Lori's prepared remarks, we had a very robust third quarter still going along. We're seeing a little bit of order pattern on the auto end go down. We're just expecting it has to the rest of the quarter because auto builds are down 17% in the second half of the year. So that's pretty much how we modeled it out, and said we'll probably see it here in the fourth quarter. And look, you all know, consumer demand's there. Auto builds are supposed to be up 11% next year. So, we should be in good shape in 2022. But I think we'll probably take a little bit of a hit here in the fourth quarter, and that's what we guided to.

There's no softness anywhere else in the portfolio. As you can tell, every one of our subsegments is up nicely except for one. So out of nine segments, eight of them were up nicely. And the only one that wasn't was related to the smartphone market, and we knew that, we already highlighted that to everybody, because the demand came earlier in the year to tee up for the production of the phones. And we knew the second half of the year to be softer and it will be fine again next year.

So demand's perfect everywhere else. By the way, our supply issues with force majeures have cleaned up substantially, so we're not dealing with that. We're really dealing with just the semi thing. And of course, everyone's dealing with logistics and shipping and all that.

C. Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Right. And then just lastly, I'm kind of like looking over the cash you're bringing in or you expect to bring in from these sales. And I mean, it's a pretty big number, well in excess of like the $5 billion that you're spending. You still have a couple of billion of cash generation, some divestitures that are bringing in some cash here in the fourth quarter.

I'm kind of getting to a pro forma year end 2022 cash number that's like, I don't know, like $6 billion, $7 billion or something in that range. Is that like – is that math off? Maybe it's $5 billion, I don't know. But it seems like you guys have like a ridiculous amount of excess cash after the dust settles on all this stuff. Am I off on my math somewhere there?

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.

A

So I think the only thing you're off is on the timing of the receipt of the cash from the divestitures. So we ended the third quarter with about $1.7 billion in cash. We generated $600 million and change in free cash flow in the third quarter. And we'll expect a similar posting in the fourth quarter. And we'll also continue to be active in the market with our share repurchases, probably about $500 million incremental in the fourth quarter.

That will put you about maybe just shy of $2 billion at the end of the year. And then you'll get next year the increment from the launch – the M&M proceeds from the divestiture and then paying for the [ph] Cardinal (48:52) acquisition, I've already – we already have the funding in place for that.

The one item outside of free cash flow that we will get in the fourth quarter, as Ed had mentioned, is the proceeds from the Clean Tech divestiture. So that should be about $470 million after tax. That will be incremental to the roughly $2 billion that I had previously mentioned for ending the year.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.
A

Yes. So Steve, at the end of the day, if you go to the end of 2022, your numbers are clearly in the ZIP code there. As we highlighted in our remarks, there are a couple laminate targets we love, we've been looking at for literally two years to three years. And we also are going to stay very balanced with share repurchase. But we don't need to make any of those decisions now. We won't get the cash for the M&M business till about October 1 of next year, and we'll see where things are at that point in time.

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

John Walsh
Analyst, Credit Suisse Securities (USA) LLC
Q

Hi. Good morning, everyone.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.
A

Good morning, John.

John Walsh
Analyst, Credit Suisse Securities (USA) LLC
Q

Hi. Wanting to know if we can keep that train of thought going. You talked about wanting to maintain a healthy balance sheet, a lot of stuff going on, moving parts, several companies also reporting today. Can you just kind of help us, what's the ZIP code do you think you'll have your net leverage at when you kind of pro forma for all the divestitures and also for the acquisitions, where do you have it shaken out?

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.
A

Yes. [ph] So we still (50:32) target to be around that 2.75 times by the close of the completion of both the divestiture of the M&M business, payment for the acquisition of Rogers, and then ideally another acquisition post the receiving the proceeds from the M&M transaction, which will have us back to that 2.75 times around mid to end of 2023.

John Walsh
Analyst, Credit Suisse Securities (USA) LLC
Q

Got you. Thank you. And then maybe just another question around capacity, just the organizational capacity to kind of continue to do M&A. You talked about a couple of deals, some assets you were excited about. Do you have the bandwidth to kind of do all this at the same time, or should we think that any kind of larger addition is, as you kind of talked about, post kind of the M&M divestiture?

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.
A

Yeah. If there was anything of this size, like a Rogers or something, just to give you a feel, it would be at least around the time or after the proceeds for M&M. So we're going to put this prepayable debt in place here just in the interim period. We can pay that off when we get the proceeds, as Lori said.

And then we'll have, as Steve Tusa was alluding to there, some billions of dollars available at that point in time. So we'll really be looking hard at, is it share repurchases or an M&A opportunity and one of the sweet spots for us, and we'll make that decision then. But I wouldn't expect that you would see us do anything before we are close to or around the time of getting those proceeds in the fall.

By the way, the team is very capable. It's a separate team that's doing a lot of the work on the separation of M&M. And we can get a transaction placed for M&M in the next three to kind of five month timeframe to have as a closed deal, but then we can't spin it until we do all the separation work, which is why I say October of 2022 to get all that done, where the [indiscernible] (52:39) are done, the separations are all done, the tax work's all done, where we can separate it.

So that team is extremely good at doing it. You watched us through the RMT and all that. And Jon's team is very far and very quickly into the integration of Laird, and this will just overlay onto that. So I don't see any issues from a bandwidth standpoint [ph] does to the company (53:00).

Operator: Your next question comes from the line of Steve Byrne from Bank of America. Your line is now open.

Steve Byrne
Analyst, BofA Securities, Inc.
Q

Yes. Thank you. When I look at the Rogers products, they're generally derived from either fluorinated polymers or polyurethanes to silicones and just had a couple of questions on those. On that first bucket, these laminates that are fluorinated polymers, do they source any material that was aqueous and thus could have a PFAS wastewater issue? And then maybe overall, do you see raw material cost pressures in this basket of products that is consistent with your Interconnect Solutions business? Or would you say it could be a little more like M&M?

Jon D. Kemp
President-Electronics & Industrial, DuPont de Nemours, Inc.
A

Hey, Steve. This is Jon. Thanks for the question. Rogers' market-leading, high-frequency laminates, as you alluded to, they do use some fluoro products, some fluoropolymers in order to help achieve some of that performance. It's a world-class supplier. They've got a diversified supply base of blue chip companies, globally recognized suppliers of that who are actively involved in all of these regulatory and other industry activity.

They're sort of leading the way on that in terms of how we address some of the fluoro materials. Our teams have done a detailed diligence on the EH&S, the environmental, the product stewardship components of that, and we're comfortable with what that product line is doing, how it's performing right now, and the supplier base for those materials.

As it relates to kind of the inflationary pressures of the raw material [indiscernible] (55:04) pressures, it's very consistent with our Electronics business – our E&I business today in the sense that you don't see a lot of the run-ups that we experience in some of the big commodity moves. These are value-based materials. And you've got some exposure to, obviously copper used in laminates and silicone, but not any different than what we have in the rest of the portfolio. And it's been – the team's fairly comfortable with our ability to manage that proactively.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Steve, I'll just add overall for DuPont to your line of question, we've highlighted to you that we've had over $400 million of raw material inflation this year. $300 million of the $400 million is in the M&M division for the feedstocks there. And that, by the way, again, it's a great business, but that's what jerks the results around that. Most of our pricing, by the way, was in the M&M division because we needed it to cover the raw material inflation. So if you take the whole rest of the DuPont portfolio, we only had $100 million raw material inflation. That's a pretty nice place to get to from that angle also.

Steve Byrne
Analyst, BofA Securities, Inc.

Q

Okay. Very good. And Ed, on the divestiture of the M&M businesses, do you have a level of confidence you can share about getting that 10x multiple? And if you can't get it, is it a keeper?

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

No. First of all, I would be very disappointed if we sold M&M for a 10x multiple. By the way, when I was comparing [indiscernible] (56:44) I'm using, that's an 11 multiple. By the way, there's been assets out there not as good as this one that has sold for 12x and a little above 12 times in the marketplace. So we're going to get a good number for this one.

I will stress again, I have personally had phone calls from people that have interest in this asset. I think the private equity world is going to be extremely interested in this asset. By the way, I think there's a very interesting opportunity out there because it's publicly noted DSM is going to market with an asset that would fit beautifully with this to create an unbelievable company. So I think you're going to see a lot of interest around this, and it's going to garner a nice multiple, which, by the way, back to my point, it's the lowest multiple in some of the parts in our company and we'll get more for it than DuPont trades at.

Operator: Your next question comes from the line of David Begleiter from Deutsche Bank. Your line is now open.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Ed, why not spin out E&I and keep M&M and avoid any possible PFAS overhang on the high-multiple E&I businesses?

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Yes, David. Well, first of all, look, I'm not worried about PFAS. Look, you know I want to get it resolved. I know there's a little bit of a cloud still lingering out there. We will get it resolved. The last announcement we did was a settlement that cost us $12.5 million in the State of Delaware. We're actively working it off comfortable, we're going to get there. And we'll clean that issue up for the company. So that's number one.

Number two, spinning E&I out, you've really got to go through the analysis of what that trades for, and I agree, it would trade higher. But what will new DuPont trade at on a bigger EBITDA base with what we put together here and we're taking up our top line growth rate, we're taking up our EBITDA margins, we're taking out the cyclicality in the portfolio, there's no way that doesn't benchmark well against some of these premier companies that we've used. So if you get some multiple uplift in DuPont, it kind of negates the multiple uplift from E&I, which is a smaller EBITDA base.

I'd also say I get asked a lot about because I've done a fair amount of RMT stuff, I always get asked that there is no partner for E&I. It's the business, there's nothing that matches up in size, even pre the Laird deal, by the way, that makes sense. And it would be pieces of E&I, which would leave off there just a partial business in DuPont and take the rest of that out. And then by the way, the beauty here, again, remember, the tax leakage is literally mid-single-digits to high single-digits depending on what price we get for it. That's a rare situation to be in. So it makes a lot of sense for us to do M&M.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. It makes sense as well. And just lastly, Ed, what's the – talk about the growth synergies and the organic growth of the new enhanced E&I business?

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Yeah. I'll let Jon cover that. We're excited about it, but let me highlight, we did not put it in our analysis of the deal, but the combo of the three, E&I, Laird and Rogers, has us really excited. I think we had a pretty neat chart in the deck if you want to go back and look at it. But Jon, why don't you talk a little bit?

Jon D. Kemp
President-Electronics & Industrial, DuPont de Nemours, Inc.

A

Yeah. David, maybe I'll give you kind of two quick examples here. When you look at it, Rogers really adds complementary materials and components that really build on DuPont's position in the industry today. If you use just a – if you pull out kind of two specific application areas, around 5G and applications and smartphones, wireless infrastructure, military, defense, electronics and automotive radar systems, DuPont's the leader in flexible laminates.

And Laird has the EMI shielding and the thermal management solutions. Rogers is the market leader in rigid PCB substrates. And so with that enhanced offering, not only can you cross-sell customers and expand your share of wallet with a global customer base, but one of the things we're really excited about, and we're already starting to see this with the Laird integration process, by the way, is engaging with customers to co-design and help address some of their most challenging needs.

To give you one specific example there. Everybody is trying to make electronic devices smaller. And one of the ways you get smaller is to use hybrid rigid flex construction on the circuit board. And now we've got a market-leading flex circuit business, a market-leading rigid business, and those complex hybrid rigid flex substrates become a lot easier to work with our customers and they're already asking for it.

If you switch over to the electric vehicle space, we've got quite a bit of content in automotive electronics today. But we really didn't have a lot of exposure prior to Laird or Rogers into things like the automotive – the ADAS systems or the battery. And Laird brought the EMI shielding with some of the absorbers, a great position in ADAS systems. Rogers built on that with their high-frequency laminates.

And then what we're really excited about is the opportunity that they have with the specialty busbars and the specialty foam, performance foams, to really address some of the critical needs in the battery packs and power assembly, power electronics parts of the electric vehicles. So you put all that together with our adhesives business, with the rest of our automotive electronics and we'll really be a preferred partner with both the Tier 1 auto OEMs as well as the OEMs themselves to design the hybrid and electric vehicles in the future.

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.
A

Yes. And David, I think the chart that Ed was referring to in the backup is the pie chart on our end market exposure. And if you look at that, over half of our portfolio between electronics; next-gen auto, which we define as battery and ADAS applications; and water, that portfolio is mid-single-digits and then some from a growth perspective. So a really nice round out from a pro forma DuPont perspective.

Operator: Your next question comes from the line of Vincent Andrews from Morgan Stanley. Your line is now open.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC
Q

Thank you and good morning, everyone.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.
A

Good morning, Vincent.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC
Q

Ed, could you talk a little bit more about the tax strategy on M&M? And I guess what I'm asking is sort of, what are the mechanisms that limit the tax leakage? And is this an opportunity for tax savings that you can only really harvest because of the sale of the asset? Or are these tax opportunities that would accrue to the overall DuPont enterprise in the absence of an M&M sale, but might have taken more time to realize over any number of years?

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.
A

Yes, Vince, and I'll let Lori comment. And Lori, why don't you comment on it?

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.
A

Yeah. Vince, it really comes from the – going back to the DowDuPont transaction and we were able to step up the basis of the heritage DuPont assets, of which are all going as part of the M&M transaction. So all those businesses are in perimeter for M&M or from heritage DuPont and, therefore, have the benefit of a stepped-up basis from the DowDuPont transaction.

Vincent Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And just as a follow-up, when you think about in M&M, obviously, the fourth quarter is going to see some issues with the chip issue in auto build. How confident are you that, that trues up in 4Q versus potentially lingers into 1Q or the first half of next year? And maybe you could, sort of, give us an assessment of what you think auto builds are going to look like into 2022? That would be helpful. Thank you.

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.

A

Yes. The current estimates as you head into 2022 is really just shifting out. And so, the IHS is estimating 11% growth in auto builds next year. And that still doesn't get you back to where we were kind of pre-trade war, pre-pandemic at an 88 million or 89 million auto build number. So we're confident that growth is just getting pushed out.

The demand is definitely there. You couldn't get a car now if you tried. And so I think there's definitely still a lot of pent-up demand for us to serve. So we have confidence it's really just a timing issue, it's not a share issue, it's not an underlying issue from a consumer perspective. It's really just when they're able – the auto makers are able to get the chips to complete the production of the cars.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Yes. And by the way, just on the M&M front going into next year, we've continued during the fourth quarter and implement some price increase actions to make sure we keep covering the raw materials. So I think 2022 will be – tend to be a solid year for the business.

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

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

So on the acquisition, can you speak to the competitive landscape in terms of the businesses and how the growth rate for the business has been over the last, say, three years to five years versus the broader market? Has it outpaced it? Are you gaining share in that area? Can you give us a little bit of color on that?

Jon D. Kemp
President-Electronics & Industrial, DuPont de Nemours, Inc.

A

Yes. Sure, John. When you look at it, it's really kind of different based on the individual product lines and the different divisions of the business. When you look at the high-frequency laminates business, the primary competitors there are companies like Asahi Glass, AGC who did a couple of acquisitions in the last couple of years to build up their portfolio in that space. You've got some – Panasonic is there. So primarily Japan-based competitors. And then you've got some local folks in China who are doing some of that as well, largely because of some of the geopolitical situation.

All of that is kind of outside and we're kind of back in the rearview mirror now. And the company is really well positioned in continuing to grow that.

On the ceramic busbars – ceramic substrates and specialty busbars, that's a pretty fragmented business. You've got companies out there like Denka, Ferrotec, Heraeus, and multiple others. It's a fairly fragmented landscape. What differentiates this technology is really the quality of the ceramic thermal substrates and the synergy that's created with silicon carbide power modules, especially for electric vehicles.

And so when you combine that with – similarly with the specialty busbars, it's going to replace things like the wire harness that's in a power system. As Ed alluded to in his prepared remarks, the quality there is really what allows the step-up in the growth acceleration really driven by electric vehicles.

On the elastomer side, it's companies like Saint-Gobain who really – Woodbridge, Nitto Denko are kind of a few names there. Across the board in each of these kind of three businesses, Rogers, it has a leading market share. They're among the leaders. They're winning in the market. They've got a great pipeline of opportunities especially on the automotive, the Advanced Mobility side, with EV and ADAS. They're working with all the power electronic OEMs. And a lot of those, by the way, are E&I customers as well.

So we'll have great relationships across the industry to be able to deliver some of those growth synergies and the upside. On a historical growth rate, they've kind of been growing mid-single-digits. And with the step-up from automotive opportunities in electric vehicles, which are markets that are growing anywhere from mid-teens in ADAS systems to 30% on the EV side, they'll see a nice growth acceleration as those start to scale over the next few years.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

John, they have very nice wins. We did a lot – we've been hearing it in the marketplace. And obviously studying them for a few years, but we've done a lot of due diligence around the pipeline of the wins. And they're very well positioned, as Jon said, on ADAS, EV, with wins and a lot of design opportunities that they're working on. So we're – we feel very good about the high-single-digit growth rate going forward for the business.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Hugely helpful. And then just as a follow-up, on the Mobility asset sale or divestiture, however it ends up going, can you speak to how we should think about any stranded costs? How quickly you may be able to exit those if there's much in the way of anything that would be left anyway?

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.

A

Yeah. I mean, we're very good at getting at stranded costs quickly. So if there's any to be had, we'll get at it. I mean, we'll look at the transaction holistically. So you'll have the M&M portfolio going out, Rogers coming in and then another transaction coming in some time later in the fall, once we have line of sight for the proceeds from the M&M divestiture. So we benchmark best-in-class from a G&A perspective, we'll continue to benchmark best-in-class post the transaction.

Operator: Okay. Your next question comes from the line of Chris Parkinson from Mizuho. Your line is now open.

Christopher Parkinson
Analyst, Mizuho Securities USA LLC

Q

Great. Thank you very much. Just regarding slide 11, you do have a history of exceeding expectations on cost synergies. And clearly, you're already embracing the potential for revenue synergies as well. So just taking that 14 times post-synergy multiple and integrating how you're assessing the long-term aggregate synergy potential based on your various buckets, can you simply just discuss the potential to further reduce the price paid and what the investment community should be monitoring during the first, let's say, 18 months, just given your progress that you've just highlighted on Laird? Thank you.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Yeah. Well, we're – look, when we talk about [indiscernible] (71:06) cost synergies, hopefully, we'd be conservative, and we compete those numbers as we already are on Laird by the way. So we'll keep updating you with the year goes on.

By the way, the multiples – actually I can get right to a decimal, but it's 13.6 times. And if we find additional synergies, we reduced it from there. And we'll just keep updating. Now that we can sit down and been actually with the teams in more detail, that's usually when we can really sharpen the pencil and really look at what else we can do. And we'll be doing that over the next few months. So I'm highly confident we'll get that amount. And we'll – yes, we've always been in the past, let me just say that.

Christopher Parkinson
Analyst, Mizuho Securities USA LLC

Q

Understood. And just as a quick follow-up, just shifting to the macro. Your team has done a fairly good job just driving pricing, controlling the raw materials, as you highlighted, at least the $100 million ex-M&M, but also transportation logistics headwinds. So based on what you're seeing right here, right now, as we're already in the fourth quarter, just what should we think about the pricing algorithm versus raws as well as transportation logistics heading into 2022 and 2023? I mean is there any expectation if we get – if we do, in fact, receive relief, you will get a structural margin uplift in certain businesses? Thank you.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Well, most of that would be in the M&M business. So you try to hold price as long as you can, right, when raws come down, so you might get some benefit there. But I would say, over a more intermediate time they would track each other. So you wouldn't have a margin problem. But if raws did come down significantly, you could give up some price, but you hold it as long as you could.

Finally, the logistics issues, I don't think are getting any better out there, [ph] by the way, all the (01:12:52) force majeures did get better, as we said. So the raw material supplies into M&M has substantially improved, which is great. And we're able to catch up a little bit last quarter with our customers in orders we couldn't ship in the first and second quarter.

But we're looking right now at additional surcharges on freight because that has continued to go up, especially ocean freight and all that. So I don't think – we probably are going to do some here. We actually have a meeting in the next couple of days where we're going to do a surcharge instead of a price increase on the actual product itself. So people now, look, we're just passing this on to you because of the freight increases. So we want to be positioned well going into 2022.

Operator: Your next question comes from the line of John Roberts from UBS. Your line is now open.

John Roberts
Analyst, UBS Securities LLC

Q

Thank you. I have two questions. Your 2022 Rogers' EBITDA estimate is 10% above consensus. Is there any significant new product or development that you uncovered in your due diligence?

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.

A

Yes. So we estimated $270 million for next year. So the largest increment of growth really just coming from the top line. So you've got the benefit from they had made a small acquisition of a silicone engineering that they just announced recently, so you have the benefit of that, as well as about mid-teens growth from an organic perspective, really coming from the strength in the pipeline that Jon had highlighted earlier.

So about 30% of their revenue is in Advanced Mobility, which is ADAS, which is growing kind of in the mid-teens, and then battery, which gets upwards of 20%-plus. And then finally, they did have a fire at one of their facilities in Asia, so we're expecting recovery there, incremental 2022 over 2021. So those are really the key drivers of the top line that are dropping to the bottom line and giving us that confidence that we'll get to $270 million next year.

John Roberts
Analyst, UBS Securities LLC

Q

And then, don't take this the wrong way, Ed, but this seems to set up an endgame for DuPont and you stepped back once from the CEO role. Do these transactions focus DuPont enough that you might consider stepping back again?

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

No

John Roberts
Analyst, UBS Securities LLC

Q

Thanks.

Operator: Your next question comes from the line of P.J. Juvekar from Citi. Your line is now open.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Yes. Hi. Good morning, Ed and Lori.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Hi. Good morning.

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.

A

Good morning.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Wondering if you can talk about your volume growth in China and wondering if you've seen any weakness related to housing and construction activities as we've been reading some headlines here. Can you just talk about the big picture there?

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.

A

Yeah. So really, the only pullback that we potentially will see in China in the fourth quarter. So in the third quarter, organic growth in China was about 11%. That put us in the low 20% year-to-date. And in the fourth quarter right now, we're expecting high-single-digit growth in China organically. So the sequential deceleration is really just a reflection of the semiconductor shortage that we highlighted earlier impacting primarily our auto sales, less so our electronics sales. And then that timing shift, that we've been highlighting around the timing of the smartphone deliveries that favor the first half.

So I would say no overall structural change. Our expectations of being up organically 7% in the fourth quarter is ahead of where GDP is expected to be right now for China as well, so we'll continue to outpace.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Yeah. And our exposure on – in kind of the housing commercial sector in China is minimal. That's a bigger business for us on the residential side in North America. So, really no impact there.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you. And then clearly, Rogers is a high-growth company in areas such as EVs and wireless infrastructure. And I know you're frustrated with your own multiple, I can hear that in your voice. But maybe you can talk about your thoughts on how did you triangulate on the multiple of 19 times 2022 EBITDA for Rogers and just your overall thoughts there? Thank you.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Yeah, sure. So Look, the 19 times, I would never do it with standalone at 19 times, I can tell you that. But we comfortably have it down to 13.6 times. With the synergies we know we can get in the, as I said a minute ago, hopefully, we can get some upside to that. So anyway, I feel very comfortable buying. This is a very high-quality company.

And one of the things Jon and I and Lori, we love about it, it really is high in technology expertise. They're scientists, the products they develop are on the cutting-edge, it's exactly what DuPont does, so the barriers around that that we like. And [ph] it's always – it's to our (01:18:04) existing end customers and it also expands some markets where we think we can leverage our products, as Jon said, into these other markets. So, it's a very high-quality asset.

Again, we've watched it for years and seriously for three years. And the beauty about this – the 13.6 times, we feel like they – with the funnel they have, they're on the cusp of some real secular growth areas that we're getting in on early with them. By the way, we feel like we did that with Laird and we were already seeing it in the performance of Laird. They're nicely outperforming what we said [ph] we would be. (01:18:43)

So we have literally bought Laird now, if you just use the numbers they're running at this year, we bought Laird at 10 times. I think when we announced it, we said it was 11 times. And the performance we're going to end the year out on Laird has already brought that down to 10 times. So – and that, again, a very high-quality asset we got at a great price. We think we're right at that point with Rogers, with these secular growth areas, on ADAS is growing 15%, EVs are growing 30%, just [ph] the name (01:19:14) the auto industry, and Rogers is very well-positioned there. And these things are just beginning to really ramp.

Operator: Your next question comes from the line of Aleksey Yefremov from KeyBanc. Your line is now open.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you. Good morning, everyone. Ed and Lori, I would agree that end markets are very attractive for Rogers and the products look strong, but margins are lower than DuPont's legacy electronics business. In your due diligence, how did you think about that in terms of maybe technological differentiation, barriers to entry or opportunities for improvement?

Jon D. Kemp
President-Electronics & Industrial, DuPont de Nemours, Inc.

A

Yes, Alex, I'll go ahead and take that one. You get kind of – the way to think about it is you got two-thirds of the portfolio with established products that have very attractive margin profiles that closely match the types of things that we have in the rest of the portfolio. And then you've got kind of one-third that is in that power electronics space that is really just starting to scale up based on the EV. It's great technology and with a differentiated position, and has a slightly smaller margin profile today as the volumes are starting to scale up for those applications. As we add the volume in, the margins drift up nicely. And then you layer synergies on top of that, and you'll have a really solid, very attractive margin profile for the overall business.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you. As a quick follow-up. On supply constraints in Mobility, supply of raw materials, if 100% is completely normal supply and maybe zero percent as the worst point of the shortages, where do you think you would be in fourth quarter and first half of 2022?

Lori D. Koch
Chief Financial Officer, DuPont de Nemours, Inc.

A

Yes. So the raw material constraints have really basically alleviated. So compared to where we were in the first half with the freeze in Texas, we're light-years beyond that. So everything is generally back to normal with respect to raw material supply. What we're facing right now is really just the semiconductor shortage impacting the OEMs that are pushing lower demand back to us. And so once we can resolve the semiconductor shortage challenge probably some time into mid next year, you'll get back to a more normal environment. So it's really not raw, it's really just the semi shortage.

Operator: Your next question comes from the line of Mike Sison from Wells Fargo. Your line is now open.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Hey, good morning. Nice transaction – a couple transactions, I guess. But it might be a little bit early, but when I think about 2023 EBITDA, you take what you're going do this year [ph] in 2021, (01:22:08) minus $1 billion for M&M, plus Rogers, plus synergy, and I assume we get pretty good growth, right, over the next couple of years. Is kind of the base case for 2023 to look like 2021, if not a lot higher? Well, maybe not a lot higher, but certainly the possibility of 2023 EBITDA could be higher than 2021.

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Yes. I don't [ph] really want to answer (82:30) something out to 2023. But look, I think we've teed up a portfolio, as we said, it's going to be higher growth and very little volatility in it. So it also depends if we do another acquisition or we do more share repurchase so it depends upon that also. Because I think as back to Steve Tusa's comments, there's some billions of dollars sitting here at the end of 2022, so depends how we redeploy that to create shareholder value also. So, there's still some big moving pieces. But again, we expect nice growth in 2022 in the core new portfolio, and we expect nice growth in 2023.

As Lori had mentioned, 40% of the portfolio was clearly nicely growing, way nicer than GDP, because they are in the secular growth areas. You take our water business, you take pretty much the whole E&I sector into account there, just to name two of them. And with the Laird now in there and the Rogers in there, you get a nice part of our portfolio growing at a nice clip.

Michael Sison
Analyst, Wells Fargo Securities LLC

Q

Got it. And as a quick follow-up. I understand the potential to be compared to the multi-industrial folks. The portfolio is going to be little more simplistic to major businesses. But DuPont tends to be put into chemical indexes for the major funds. So will these transactions likely to move from an SiC code or something like that to an industrial code where I think you can get a little bit more attention for the comps that you want to be compared to?

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Well, first of all, the comps, by the way, they really are good comps because if you take the broad bucket of multi-industrials, the end markets we're in are all the key end markets a lot of the other multi-industrial. So we're not drifting off of something else here that's different.

In fact, I would say the one thing that was different actually from the compare group was more evident, that was probably most people are leaning more towards the chemical industry and not the multi-industrial, but the portfolio now lines up end market very, very well.

So look, we'll work that issue on the multi-industrial over time. We kind of put an action plan together on it. We need our investors to focus on that, we need to talk to the right people at the right funds within the big companies that invest in us, and we'll work that issue. But I think over time, we will get compared. I mean, we benchmark really nice against that group.

Operator: Your final question comes from the line of Arun Viswanathan from RBC Capital Markets. Your line is now open.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question. I guess two questions. So first off, on the Q2 2022 expected close, is that a little bit later than you expect? Is there any regulatory issues that you expect through this process? And similarly, for October 2022 for the divestitures, that also seems like a ways away. Are you just building in some extra cushion there?

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

The 2022 – so the closing of Rogers deal, I don't see any issues. We've obviously studied the antitrust extremely deeply, so I don't see any issues there. Could that close a little bit sooner? It could. But we're just targeting the second quarter to be safe, could be a little faster. I don't think M&M will be faster than October 1, because the long pole in the tent is more of the work we have to do internally at DuPont to separate it. So we'll announce a sale to somebody way sooner than October 1, but we won't be able to actually separate it out of the company until that point in time.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay. Thanks. And as a follow-up, you've clearly been on a path to move towards higher-growth, higher-margin businesses in the hopes of getting some multiple uplift. What can you do to accelerate that if that's not shown in the market? Will you continue to march down this path of separation and streamlining? Is there – it looks like there's more announcements coming may potentially in water. Is that the next area of growth that we should think about?

Edward D. Breen
Executive Chairman & Chief Executive Officer, DuPont de Nemours, Inc.

A

Well, by the way, we're down to the slot five platforms that we mentioned. So it could come really in any of those [indiscernible] (87:11 – 87:18) go on for many, many years. And it's a global issue, which we can help solve for people. So we do like that space.

Look, let's see how this year goes. I'm highly confident people will recognize what's in this portfolio. I will also add, I think, which would be very helpful for everybody, we started doing the teach-in, Jon did one on semiconductor a month or so ago. We have one coming up here shortly and we're going to walk you through every key piece of the portfolio. And I think it will really highlight the value.

But internally here, like I just – I'll use two companies we have, Vespel and Kalrez and I don't think anyone has a clue what those businesses are like and how awesome they are and how good the growth trends in those businesses. So just to name two that we didn't even talk about today. So I think the teach-ins will be very, very powerful in people to see what we have and the value and the technology that we have in the company. And I think that's going to be helpful also.

Patrick Fitzgerald
Investor Relations, DuPont de Nemours, Inc.

Thanks, Ed. Thanks, everyone, for joining our call. For your reference, a copy of our transcript will be posted on DuPont's website. This concludes our call.