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DuPont Specialty Products USA, LLC

Second Quarter 2026 Earnings Call

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CORPORATE SPEAKERS:

Ann Giancristoforo
DuPont; Vice President of Investor Relations
Lori Koch
DuPont; Chief Executive Officer, Director
Antonella Franzen
DuPont; Chief Financial Officer

PARTICIPANTS:

Jeffrey Sprague
Vertical Research Partners; Analyst
Scott Davis
Melius Research; Analyst
Joseph Ritchie
Goldman Sachs; Analyst
John McNulty
BMO Capital Markets; Analyst
Chigusa Katoku
JPMorgan; Analys
Christopher Parkinson
Wolfe Research; Analyst
John Roberts
Mizuho; Analyst
Joshua Spector
UBS; Analyst
David Begleiter
Deutsche Bank; Analyst
Matthew DeYoe
Bank of America; Analyst
Vincent Andrews
Morgan Stanley; Analyst
Abigail Eberts
Wells Fargo; Analyst

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PRESENTATION:

Operator^ Hello and thank you for standing by. (Operator Instructions) At this time, I would like to welcome everyone to the DuPont Second Quarter 2026 Earnings Call. (Operator Instructions)

I would now like to turn the call over to Ann Giancristoforo, Investor Relations. Please go ahead.

Ann Giancristoforo^ Good morning. Thank you for joining us for DuPont's Second Quarter 2026 Financial Results Conference Call. Joining me today are Lori Koch, Chief Executive Officer, and Antonella Franzen, Chief Financial Officer. We have prepared slides to supplement our remarks which are posted on DuPont's website under the Investor Relations tab and through the webcast link.

Please read the forward-looking statement disclaimer contained in the slides. During this 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 risks and uncertainties, our actual performance and results may differ materially from our forward-looking statements. Our Form 10-K, as updated by our current and periodic reports, includes detailed discussion of principal risks and uncertainties which may cause such differences.

Unless otherwise specified, all historical financial measures presented today are on a continuing operations basis and 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 presentation materials and has been posted to DuPont's Investor Relations website.

As a reminder, on the basis of presentation, our share and per share information has been retroactively adjusted for the reverse stock split that was completed in June 2026.

I'll now turn the call over to Lori, who will begin on Slide 3.

Lori Koch^ Good morning, and thanks everyone, for joining our call. Earlier today we reported our second quarter financial results which again exceeded our previously communicated guidance. Through our ongoing focus on excellence and productivity, we delivered organic sales growth of 4%, 80 basis points of margin expansion, double-digit adjusted EPS growth, and robust free cash flow conversion in the quarter. As a result of our second quarter performance, we are again raising our full year 2026 financial guidance for organic sales growth, operating

EBITDA and adjusted EPS. We expect our free cash flow conversion to be ahead of our 90% target. Antonella will provide further details shortly.

Additionally, we announced that in the third quarter, we expect to launch a $250 million share repurchase which highlights our continued focus on driving a disciplined capital allocation model. We also completed the previously communicated reverse stock split which aimed to align our key performance metrics with those of our Industrials peer set. In addition, effective in July, our GICS code classification has been changed to Industrials, an important milestone that recognizes the significant transformation of DuPont over the past several years. This new classification better reflects our industrial portfolio and the long-term value creation opportunities we see ahead.

Moving to Slide 4. We continue to make strong progress advancing our strategic priorities through a more robust and disciplined business system with a clear focus on organic growth, accountability, execution and continuous improvement across the company. The objective is straightforward: reinforce the operating culture required to deliver sustainable performance while building repeatable capabilities that drive growth, margin expansion and shareholder value over time.

What is important is that these are not isolated initiatives. Innovation, commercial excellence, operational excellence and 80/20 are increasingly connected through one operating system that helps us prioritize the highest value opportunities, execute with greater rigor, and scale what works across the organization.

Innovation excellence remains central to our value prop for both customers and shareholders. Our pipeline continues to deliver new wins across high-growth and emerging applications through differentiated products and application development. We are using the business system to sharpen the focus of our innovation pipeline, improve how we manage differentiated opportunities and support the continued expansion of our AI-ready labs initiative, leading to faster development cycles and a more robust front-end pipeline.

You can see that in the quality and relevance of launches coming through the pipeline. In Water, we launched an integrated end-to-end solution for direct lithium extraction, including membranes and ion exchange resins, designed to improve lithium recovery and purity. In Healthcare, we continued the expansion of our Liveo™ portfolio to better serve the high-growth biopharma market. In Diversified Industrials, we are bringing forward new solutions for electric vehicles and battery energy storage systems.

Commercially, we are putting more rigor and scale behind growth. We have continued to see improvement in overall order trends, and we are rapidly scaling sales plays using AI to accelerate our impact. Here we are moving from process deployment to operating discipline and the early demand generation momentum is encouraging: we have won about 150 opportunities which represents a nearly 30% win rate. This sits firmly ahead of our historical percentage as well as above industry benchmarks.

Overall, we are building a more systemic commercial engine: clearer targeting, stronger data quality, accelerated demand generation and more disciplined execution from opportunity creation through conversion, leading to a strong pipeline. OpEx continues to be a key driver of value creation at DuPont. We are building a more disciplined operating culture that is translating into measurable improvements across productivity, quality, customer delivery and costs. In the quarter, we delivered a more than 100 basis point improvement in OTIF and net productivity with a continued reduction in cost support quality.

Looking ahead, we see additional opportunities through both AI and automation, where early pilots in reliability, maintenance and quality are identifying significant improvement potential. Ultimately, OpEx is not simply a cost initiative. It's a growth enabler that improves customer experience, strengthens margins and enhances our competitive position over time.

Lastly, our 80/20 work is increasing focus and simplifying complexity across the organization. We are developing a much clearer understanding of where value is created, concentrating resources behind those opportunities and simplifying activities that consume resources without generating comparable returns. I noted earlier that we began by piloting the approach in four of our Diversified Industrials businesses. This work has identified meaningful opportunities to create value which we have already begun to execute. The examples are clear. The team identified an opportunity to reallocate commercial, tech service and marketing resources towards geographies and market segments with the greatest growth potential, while simplifying the approach to smaller markets through stronger channel partnerships.

Additionally, the team identified productivity initiatives to reduce manufacturing complexity, better sequence production and focus on the highest value product families to improve yields, asset utilization and capacity within the existing footprint. The common thread across all of this work is focused, disciplined and repeatability. We are advancing innovation in the markets where application expertise is most differentiated, strengthening commercial execution with data, AI and more targeted sales plays, improving operational performance through Kaizen, productivity, quality and OTIF and using 80/20 to simplify and concentrate resources where they create the most value.

With that, I'll now turn the call over to Antonella to cover the financials and outlook in more detail.

Antonella Franzen^ Thanks, Lori, and good morning everyone. Strong execution and market-driven growth in the second quarter delivered results ahead of our financial guidance. Organic growth and a continued focus on productivity drove solid operating EBITDA leverage, meaningful margin expansion and robust free cash flow generation in the quarter. Consistent with our first quarter call I will provide comments on our results versus the prior year pro forma which adjusts for our post-separation corporate costs, interest expense and income tax rate.

This is consistent with the methodology and financial metrics that we provided at our 2025 Investor Day. In addition, all share and per share amounts have been retroactively adjusted as a result of the reverse stock split.

Beginning with our second quarter financial highlights on Slide 5. Net sales of $1.8 billion were up 4% versus the year ago period on 4% organic sales growth. Top line growth was broad-based, led by continued strength in healthcare, aerospace and industrial water and semiconductor markets. In addition, we saw year-over-year growth in our Building Technologies business on strength in residential and non-residential end-markets. From a segment view, during the quarter, organic sales grew 4% in Healthcare & Water Technologies and 3% in Diversified Industrials. Second quarter operating EBITDA of $448 million increased 8% versus the year ago period on organic sales growth and productivity. This resulted in operating EBITDA margin of 24.6% in the quarter, an increase of 80 basis points year-over-year including a 30 basis point headwind from price/cost dynamics.

Turning to cash flow. We delivered transaction-adjusted free cash flow of $326 million and related conversion of 127%, underpinned by earnings growth and net working capital productivity. Given our strength in the quarter, we expect our full year free cash flow conversion to be ahead of our 90% target.

Turning to Slide 6. Adjusted EPS for the quarter of $1.88 was up 21% versus the year ago period. The increase was driven by stronger operations of $0.17 and a $0.15 benefit from below the line items.

Turning to our segment results on Slide 7. Healthcare & Water Technologies second quarter net sales of $856 million were up 5% versus the year ago period on 4% organic growth and a 1% benefit from currency. For the second quarter, Healthcare sales were up mid-single digits percent on an organic basis versus the year ago period. Organic growth was broad-based led by double-digit gains in personal protection and biopharma markets. Water sales were up low single-digits percent on an organic basis on double-digit gains in industrial water and semiconductor markets partially offset by weakness in the Middle East.

Outside of the Middle East, organic sales increased mid-single digits percent in the quarter. Operating EBITDA for the segment during the quarter of $258 million was up 4% versus the year ago period on organic growth and productivity gains, partially offset by growth investments. Operating EBITDA margin of 30.1% decreased 30 basis points year-over-year as organic growth and productivity were more than offset by less favorable mix and growth investments.

Turning to Diversified Industrials. Second quarter net sales of $963 million increased 3% versus the year ago period on 3% organic sales growth. At the line of business level, organic sales for Building Technologies were up low single-digits percent on growth in residential and non-residential construction markets, led by Asia Pacific. Industrial Technologies organic sales were up mid-single digits percent on double-digit gains in aerospace and electric vehicle battery applications as well as mid-single-digit growth in printing applications. Operating EBITDA for Diversified Industrials of $213 million was up 7% versus the year ago period on organic growth, favorable mix and productivity. This translated to operating EBITDA margin in the quarter of 22.1%, an increase of 70 basis points versus the year ago period.

Turning to Slide 8. We are again raising our full year 2026 financial guidance given our outperformance in the quarter as well as benefits from capital deployment. For the full year 2026, our net sales guidance now assumes organic growth to be slightly ahead of 4% on continued strength across most of our key end-markets. We have adjusted our midpoint to $7.175 billion due to a lower expected currency benefit as the U.S. dollar continues to strengthen. Operating EBITDA at the midpoint has now increased to $1.760 billion, reflecting our stronger second quarter results and more than offsetting headwinds from currency. Operating EBITDA margins of 24.5% includes a 30 basis point headwind from oil and gas inflation. Our adjusted EPS at the midpoint of $7.24 is a $0.15 increase versus our prior guidance and represents an 18% increase compared to the prior year pro forma.

For the second half, at the midpoint, our estimated net sales of $3.675 billion assumes organic growth of about 6% year-over-year, driven by continued strength in healthcare, industrial water and aerospace end-markets as well as carry forward pricing from actions already taken. Operating EBITDA is expected to be $900 million, resulting in operating EBITDA margin of 24.5% including a 50 basis point headwind from oil and gas inflation. Adjusted EPS at the midpoint is expected to be $3.73 per share.

As a reminder, our third quarter 2025 benefited from a timing shift of approximately $30 million of sales due to system cutover activity in advance of the Qnity™ separation which was a 2% organic growth shift from the fourth quarter to the third quarter. Our third quarter expectations include a sequential $50 million sales lift from Q2 related to pricing actions already taken and operating EBITDA at the same level as the second quarter. Therefore for the third quarter 2026, we estimate net sales of $1.835 billion, operating EBITDA of $448 million and operating EBITDA margins of 24.4% including a 50 basis point headwind from oil and gas inflation.

Adjusted EPS is expected to be in the range of $1.80 to $1.90 per share. Our third quarter net sales guidance assumes about 5% organic growth year-over-year when adjusted for the prior year timing shift and about 3% organic growth year-over-year as reported. Currency is expected to be about a 1% headwind in the quarter. For the Healthcare & Water segment, we expect third quarter organic sales growth in the mid-single digits percent range led by strength in medical device, biopharma and industrial water markets. For the Diversified Industrials segment, we expect third quarter organic sales growth in the low single-digit percent range, on continued strength in aerospace and electric vehicle battery applications.

Before I close, I want to take a moment to thank our teams around the world. The strong results we've delivered to date are a direct reflection of their hard work, dedication and focus on serving our customers every day. We're proud of what we've accomplished together and even more excited about the momentum we're carrying into the second half of the year. With strong positions in attractive markets, a continued focus on execution and the talent of our people, we have a lot to look forward to as we finish the year strong.

With that, we are pleased to take your questions, and let me turn it back to the operator to open the Q&A.

QUESTION & ANSWER:

Operator^ (Operator Instructions) Your first question comes from the line of Jeff Sprague with Vertical Research Partners.

Jeffrey Sprague^ Two unrelated questions for me. First, Lori, where you kind of began today with the innovation and commercial and the like, can you just give us something to anchor on in terms of thinking about contribution to sales or product vitality? And on the cost of poor quality and OTIF also, I'm just wondering if you could kind of anchor us on kind of your start point there where you're at on that progression?

Lori Koch^ Yes, of course I can. So on all of the fronts across the business system, I'm really happy with the results that we've driven so far across all the different frameworks, whether it's innovation, commercial, or operational excellence. But to your question on the innovation, we have a really strong foundation that we're starting from with a vitality index of about 35%, and we'll continue to build on that. Our focus is on maintaining that strong balance as well as shifting the mix more towards growth versus replace that could comprise that 35% fatality index.

So, we've seen benefits with respect to an improved front-end pipeline on the innovation front, also a reduction in the cycle speed with respect to getting new products to market and generating in the front-end pipeline. So, while we -- I'm not quite sizing what the upside is with respect to innovation, we're firmly committed to the minimum 3%-4% organic sales growth that we had put out at Investor Day where, in fact, if you look at our full year numbers running either in line or ahead on all of the metrics, whether it's organic gross margin expansion or EPS growth with respect to those targets. So really nice lift and a lot of that's really coming from the implementation of the business system.

On the -- one quick comment on the 80/20 work as well. So, we've been engaged on a study with four of our businesses in the Diversified Industrials with respect to implementation of 80/20, we're through that initial exercise with respect to framing the opportunities and we're actually executing those opportunities now and we have a few million of benefit in the second half from an EBITDA perspective, around just simplifying the portfolios, driving yield, optimizing mix, making sure that the resources are targeted the highest growth opportunity. So, nice performance there.

On the cost of poor quality, to your question about the improvement that we're seeing, we're below benchmark. I think benchmarks right around 5% of sales. We're at about 4% of sales with respect to cost of poor quality, and we look to drive that lower as we implement the OpEx framework.

Jeffrey Sprague^ Great. Then maybe just for Antonella. On the oil and gas margin-related headwinds you shared with us for the quarter, the outlook in the year. Do those all roughly reflect price cost dollar neutrality? Or are you kind of above -- ahead or behind on an actual dollar versus cost basis?

Antonella Franzen^ It's price/cost to dollar neutrality. So as we said on the last call as well, there's about $90 million of pricing that's in there on a full year basis. We have a little bit of that in Q2. As you would expect, the majority of that is sitting in the second half of the year, and that keeps us price/cost neutral from a dollar basis.

Operator^ Your next question comes from the line of Scott Davis with Melius Research.

Scott Davis^ I wanted to follow up a little bit on Jeff's question and there's a lot of changes going on at DuPont and net productivity goals is not something that we talked about in the old days. But can you talk about where you are today, kind of where you want to be and kind of a realistic timeframe of where you can get to kind of best-in-class levels?

Lori Koch^ Yes. So our target for net productivity is 3%. So 3% of COGS annual reduction on a net basis. So that's a sizable improvement from where we've been in the past where the number was kind of flat at best. So we're making nice progress in the quarter. We saw about 200 basis points of a reduction on a COGS basis that contribute about 100 basis points of margin expansion as a percent of revenue. So a nice improvement. I think to get to like the 3% net productivity kind of core curriculum that we're driving across the organization, that's probably within the next 18 months to be able to get to that 3% run-rate across the organization.

Scott Davis^ Okay. That's helpful. Then when you're making these kind of operational changes and obviously trying to drive cultural change, there's a certain component that you probably need to change compensation plans and such to re-center around these new targets and goals. Are you -- have you done that already? Or is that in process? Kind of where do we stand in that perspective?

Lori Koch^ Yes. So on our compensation, we've changed this year with respect to the level at which we compensate for the short-term incentive or the cash bonus for every year. So in the past, it was done at the segment level, so it would have been Healthcare & Water or Diversified. This year, we're doing it at the line of business level. So there are six lines of businesses, three under each segment and we're using that as the center point for the business performance to really drive enhanced accountability at that level.

As we look into 2027, we are changing the compensation method for our sales force. So we're in the midst of that right now, of moving them to commission-based. So today we've got pockets of commission-based sales across the organization. But in general, the sales force is paid on the same bonus structures what the rest of the organization is. So in order to be able to really drive that growth and drive that hunter mindset and business development expertise across the organization is really important to then incent the sales force to drive growth. So that change will be happening in 2027 for those individuals.

Operator^ Your next question comes from the line of Joe Ritchie with Goldman Sachs.

Joe Ritchie^ So I wanted to start with the Middle East. I think last quarter, you guys were calling out some logistics constraints and then and delayed shipments also in project timing that was supposed to come through in the second half of the year. Can you just give us an update on where those projects stand and like whether you've seen any type of alleviation on the constraints that you saw last quarter?

Lori Koch^ Yes. So the $10 million shift that went from Q1 to Q2 happened. So that happened in April – had kind of already been behind us by the time we did the Q1 call. We're still in the same bucket with respect to expectations for Middle East in the second half. So we see improved performance in the Middle East in the second half versus the first half, really driven by projects that are already on the books. So we've got a few large projects in the Middle East and kind of in line with the expectations that we see for more global large projects second half versus first half. So we still got visibility to those. They're still on our books. We have continued to expect that most of that revenue hits in the fourth quarter versus the third quarter. So if you look at kind of the trajectory of organic growth that Antonella called out 3Q, 4Q and you take out the timing shift with respect to last year, we'll see about 5% organic growth in Q3 and then 7% in Q4. Really that step-up is really around these projects, across the globe beyond just the Middle East in the Water business.

Joe Ritchie^ Got it. That's helpful, Lori. I guess just maybe on margins for a second. Your Healthcare & Water Technologies segment saw 30 basis points of margin contraction despite the solid growth. I know that you guys were expecting some type of mix normalization. I think you also called out growth investments. Can you just maybe unpack the specific mix dynamics as well as the investments that you're making in these segments?

Antonella Franzen^ Hey Joe, it's Antonella. Yes. So what we talked about in our first quarter, we had a much heavier component related to our Healthcare sales in Q1 relative to the second quarter. So that was the mix shift that we had talked about last quarter. So we're just seeing the opposite side of that now. Overall, underlying margins in the Healthcare & Water business are very strong. We are making investments there. We're seeing the impact of those investments in our top line growth.

Lori Koch^ Yes. One of the areas that we'll highlight with respect to the return on the investments. We've invested in additional sales resources within our Tyvek® business to be able to continue to fill up to fill up the assets. One of the large opportunities that we've seen is around sales plays in the garment space. So we introduced sales plays in the garment space towards the tail end of last year. Called out nice performance in the prepared remarks with respect to building a robust pipeline, and we actually see about $5 million or $6 million of incremental garment sales in the full year 2026 expectation. So really already seeing nice contributions from those additional resources that we added.

Operator^ Your next question comes from the line of John McNulty with BMO Capital Markets.

John McNulty^ Maybe the first one on the Diversified side. So I guess when I look at the second half outlook for growth versus the second quarter, it looks like things accelerate a bit. I guess can you help unpack that, what may be driving that? Then also thoughts on the incremental operating leverage that you have, especially with some of the 80/20 starting to kick in, how should we be thinking about that in the back half?

Antonella Franzen ^ So overall, when you take a look at things from the growth side, I would say when you look at the first half versus the second half, what you're really seeing, if you kind of take Q2 as your starting point, it's really just the incremental pricing that's in the second half of the year. So as I noted earlier, we do have a majority of the pricing related to the oil and gas headwinds in the second half of the year. That adds about two points of pricing in the second half. So again, if you look where we landed in Q2 of around 4% organic growth, we have the extra two points of pricing that kind of gets you to the 6% organic growth that we see in the second half of the year. So no significant uplift needed there to achieve that target. When you look at the incrementals in the second half of the year, if you're kind of looking at things on a year-over-year basis and you adjust for the price/cost dynamic, our incrementals are around 40%.

John McNulty^ Got it. Then on the 80/20 program, I know it's a little bit on the early side. But I think the idea, at least when you set out was to significantly improve the profitability, but there might be a bit of a drag on the top line over time. I guess is that still how you're thinking about it? Or are you starting to see any potential positive offsets that may help that top line to maybe come in a little more robust than where you originally expected.

Lori Koch^ Yes. So we do see opportunities on both fronts. So the initial kind of few million dollars that I had mentioned that we expect in 2026 from the 80/20 work is really going to be more around the margin side. So kind of relooking at our org design and our op model and driving some yield improvement and making sure that we've got the resources focused on the 80% and moving away from 20% to be able to drive margin improvement.

With respect to growth, there's also opportunities that we see around upgrading our market expertise, driving enhanced commercial excellence, as well as further business development work that should drive growth. So that will be a little bit longer in realization versus profitability work, but we don't see a material headwind to the top line. In fact, over time ideally a benefit to the top line with respect to being able to really focus our resources on the value creation opportunity that resides in the 80’s and doubling down on that. But right now we don't see a material impact to the top line. It's more of an improvement on the bottom line from the 80/20 work.

Operator^ Your next question comes from the line of Chigusa Katoku with JPMorgan.

Chigusa Katoku^ I just wanted to follow up a little bit on the Water business. I think it came in at plus low single digit this quarter. Just curious specifically in Water, how you expect it to phase in the third and fourth quarter? And do you still expect high single-digit in the back half and mid-single-digit for the full year in Water?

Lori Koch^ Yes. So we've -- our expectations now for the full year are more in the low to mid-single-digit range, really with the slight revision being driven just by what's going on in the Middle East, nothing structurally changing in the business in the long term. So we still do expect to ramp first half, second half. So for the second half, we do see on average, kind of that high single-digit growth leading to that low to mid-single digit for the year. I think it's important to note while we tempered down the Water expectations, we tempered up the Healthcare expectations, and we still see the same growth profile for the overall Healthcare & Water segment. We actually slightly raised the organic growth for the full year for the company from -- we were at 4% heading into the quarter and now we're slightly above 4%, really just dropping that outperformance that we saw in Q2 to the year.

Chigusa Katoku^ Okay. That's really helpful. Then just looking at the margins, I think historically, your margins ramp in the second half versus the first half. Understanding this year, you have the oil inflation impact. But is there anything else that's going into the deceleration in margins in the second half, mix or anything of that sort?

Antonella Franzen^ Yes. Actually, if you kind of take a look at our margin profile and you put the price cost aside, if you look at our business segment margins, they're actually increasing an incremental like 50 basis points in the second half of the year versus the first half of the year. So we still have very nice margin momentum going into the year. And quite honestly, we had really strong margins last year second half, as well. So I think that shows the continued margin expansion profile that we have, the team is continuing to do a really good job related to that and to some of the points that Lori made, it's really being driven by our productivity as well as nice leverage on the growth.

Operator^ Your next question comes from the line of Christopher Parkinson with Wolfe Research.

Harris Fein^ This is Harris Fein on for Chris. My first one, can you just give us an update on the M&A pipeline? It seems like you have capacity for both buybacks and mid-sized M&A. I guess what are you seeing out there in terms of CDMO opportunities?

Lori Koch^ Yes. So we continue to have a nice M&A pipeline, and we're also taking a nice balanced approach to capital allocation. So to your point, we announced the $250 million share repurchase that we will execute in the quarter, we still have sizable proceeds to be able to do M&A as well. So we still have well over $1 billion to be able to go out and do some M&A. So we continue to see a robust pipeline on both the Water side and the Healthcare side. On the Healthcare side, the opportunity to span both the packaging front as well as the CDMO front, to your point.

So we continue to do the work. We're going to be diligent about the returns that we expect with respect to the valuation. So we'll look to say kind of on a gross basis be in a mid-teen valuation giving that down into a lower teens on a net basis post synergies. So we've got an expectation as well that whatever asset that we acquire would be incremental to our overall growth algorithm as well. So I'm optimistic we're doing a lot of work, but we'll be prudent with respect to the returns that we expect on a deal.

Harris Fein^ Got it. And for my second one, just on pricing. With the ramp that you're seeing in the second half, just any thoughts on how sticky that might be depending, obviously on how the situation in the Middle East plays out as we look ahead to '27.

Antonella Franzen^ Yes. I mean we'll always look at our pricing opportunities and the elasticity within each one of the lines of businesses as we move forward. For this year, as we noted, pricing in totality related to oil and gas is about one point for the full year. It's about 2 percentage points in the second half of the year. There is some other pricing that we also have that's in the top line as well. That's outside of oil and gas, and we'll clearly continue to look at that as we move forward going into '27 and beyond.

Operator^ Your next question comes from the line of John Roberts with Mizuho.

John Roberts^ Congrats on the reclassification. Could you talk a little bit about the Middle East Reverse Osmosis headwinds? Is that primarily logistic constraints or has something structurally changed there?

Lori Koch^ No. There's no structural changes it's primarily just the conflict that's happening in the Middle East. So a lot of the desalination volumes that are a big chunk of RO obviously in the Middle East in those projects are moving around a bit. They're not getting pulled. They're just moving around a bit with respect to when we expect those to hit. So structurally no change in our expectations for nice mid-single-digit growth out of the Water business. There's just a little noise this year, ideally some resolution coming with respect to what's going on in the Middle East so that we can return to a more normal growth profile.

I think it's important to note, though, that the Water business continues to perform very well outside the Middle East conflict. So we -- we've seen really nice robust growth. The ex the Middle East in the second quarter, our organic growth was up in the mid-single digits. So the rest of the world is performing quite well. In the Middle East, it's only about 10% of sales.

John Roberts^ Then the new lithium water opportunity, does that require incremental CapEx here to build out that business? Or are these existing products and services that you can actually just grow in your, within your existing footprint?

Lori Koch^ Yes. No capital required. We introduced a new suite of products recently that we announced. So we had to do some application development enhancement within an existing product portfolio across both RO and Ion Exchange. So a nice opportunity for us. We size the DLE market around $200 million, and we're well positioned to be able to take advantage of the growth in that space.

Operator^ Your next question comes from the line of Josh Spector with UBS.

Joshua Spector^ I just wanted to ask on the updated organic growth outlook. I mean it's a small tweak up, but it's still a tweak up. Your comments on pricing sound exactly the same as last quarter. So does that mean volumes are coming in a little bit better overall? And just curious where you'd attribute that to? It sounds like Healthcare, but I don't know if Diversified Industrials is playing a role in that at all or not?

Antonella Franzen^ Yes. As Lori mentioned earlier, Healthcare is driving that, and you did see really nice growth in Diversified industrials as well which we've also added that to the full year as well. So both of those two areas are helping to offset the little bit of weakness that we're seeing in Water related to the Middle East.

Lori Koch^ Yes. I mean in DI, we have a very strong order book on the Industrial side within DI. So we cited that kind of all year and it continues to drive kind of low double-digit order gains across that portfolio. We're seeing nice positions within Shelter as well. So while Shelter still continues to be about net neutral on a full year basis from an end-market perspective to see outperformance in the space on the resi side. So even though it's a little tempered, we're seeing outperformance there. So incrementally, optimistic on the Shelter business.

And maybe just one more comment on the Diversified side, optimistic on the EV battery space. So we saw a really nice growth in the EV battery space in 2Q, especially in the European markets, we're really seeing that pipeline come to fruition there and driving nice results for us.

Joshua Spector^ Let me follow up on that specifically then. And just -- I mean how big is that EV battery? And is that primarily adhesives? Are there other separator or thermal materials that you guys are selling?

Lori Koch^ Yes. It's primarily adhesives. So the EV battery space alone today is around $70 million of revenue. We see it going nicely into the triple digit in '26 and '27. And broadly, the whole EV opportunity for us is a few hundred million. So of our whole $900 million automotive portfolio that EV portion is nicely butting up to almost 50% of it. So we had a lot of wins in the pipeline on the battery space across all the regions, and we're seeing those come to realization as those automotive OEMs start to introduce the newer models.

Operator^ Your next question comes from the line of David Begleiter with Deutsche Bank.

David Begleiter^ Lori, just on construction, you noted some improvement in those markets. Is that mainly data centers or other areas or expanding as well?

Lori Koch^ No. Not data centers. It's more on the HHEP, so kind of the healthcare education, retail market. So there's a lot of growth in the healthcare space with respect to new hospital builds. I think in the education space, there's a lot of investments still going on at the university level that's driving our optimism there. So we've got a tiny little bit in data centers that we're looking hard to be able to see how we can continue to grow that. But a lot of our growth is outside data centers in the non-res space.

David Begleiter^ Very good. And just back on pricing of the $90 million you're targeting for this year, if we do see raws go back to pre-conflict levels. How much of that should you or could retain?

Antonella Franzen^ So obviously we'll take a look at that if and when it happens. I know there was a period of time like earlier in the quarter where everybody thought kind of that was behind us, but it quickly all came back. So obviously we're watching it closely day-by-day and week-by-week basis, and we'll stay close with our customers relative to that. As I mentioned earlier, that $90 million of pricing is related to the oil and gas headwinds. We clearly do have pricing in other areas of our portfolio as well. That's really related to the value of our products which clearly we will continue to look at and continue to have the ability to have pricing to be part of our growth as we move forward.

Operator^ Your next question comes from the line of Matthew DeYoe with Bank of America.

Matthew DeYoe^ R&D expense continues to be managed lower. Like where is the right landing zone? And how have you shifted the framework for R&D spend and hurdle rates maybe, I don't know Lori, if you want to tap on your experience here at the pump or maybe comparing where you are now to the DuPont of old.

Lori Koch^ Yes. So we target R&D expense at about 2.5% of sales. I think we're still generally in that ball park. So anything that you're seeing with respect to moves are really more around changes in how we allocate the space, the R&D labs operate in versus any kind of fundamental change in our level of investments in R&D and application development across the organization. My focus now is making sure that that 2.5% is spread in a differential manner across the businesses. So we've got opportunity to better do differential management with respect to R&D and making sure that we're getting more of the R&D into the areas that drive the outsized growth. So that's where we're focused now with respect to the portfolio, making sure that we're driving a really robust front-end work to be able to speed up the development cycle and get those new introductions to market more quickly.

I would say with respect to the DuPont of the past, we're materially different with respect to where we're placing our bets. So all of our bets are primarily within the application development space. They are working with our customers, understanding their key technological challenges and making sure that we're addressing those. They're not kind of presupposing large opportunities that don't exist today and doubling down on that. So all of the investment is really aimed at customer pipeline and working side-by-side with our customers to be able to solve their challenges.

Matthew DeYoe^ Then just quickly for the second quarter, can you give us a quick little breakdown on where price versus volumes fell across the two segments?

Antonella Franzen^ So overall, I would say of our 4% organic growth, there was about a point of price. I would say that was pretty equally split between the two segments.

Operator^ Your next question comes from the line of Vincent Andrews with Morgan Stanley.

Vincent Andrews^ I wanted to ask on the cash flow. Obviously very strong performance looked across all the buckets of working capital, it looked like it was very well done. So just curious how you're thinking about that into the back half of the year. Is there any reversal of that? Or where you think overall conversion might be for the full year?

Antonella Franzen^ Yes. So starting with the second part of your question first. So I would clearly expect that on a full year basis, we're much closer to 100% than we are to the 90% in terms of conversion. To your point, a lot of that is working capital. We have a large focus on that in the organization, whether that's in our DSO or DPO or our inventory days that's what helped drive the Q2 free cash flow conversion. I mean typically, when you look at our free cash flow, the first quarter is usually the lowest quarter. Things typically get better in the second quarter. We also have our interest payment in the second quarter. Typically, the second half is better than the first half. Sometimes there's some timing of certain tax payments and things like that, that skew it, but that's the overall kind of, I would call it, seasonality of our cash flow. So we expect to have a really strong cash flow year.

Vincent Andrews^ Certainly looks like it. As it a follow-up, on slide four in the commercial bucket there, with the AI initiatives, you talked about the 50 sales plays, 150 opportunities and the 30% win rate. I guess my question would just be, is AI making that win rate? I mean clearly, you were going out on commercial exercises in the past. But is the win rate now higher with AI? Or is it about the same? Or what are you seeing there?

Lori Koch^ So the win rate of the 30% that we mentioned on the AI sales plays, those were primarily in the Garment business. Our typical win rates were in the high teens. So you can see kind of the outperformance. I wouldn't say the win rate was driven by the AI work. It was -- the AI work really just helped our speed to market. So in the past, when we would have run a sales play to say a couple of months to be able to get ready to launch. Now we did it in four weeks. So the AI is really helping on the pace. I would say the win rate piece is enabled by the enhanced commercial organization we are putting in place across the Garment business. So really more of the mindset of a hunter mentality and being able to go out and get a better sales performance. I had mentioned we got about $5 million or $6 million in incremental garment sales alone from the sales plays that we launched.

Operator^ Your next question comes from the line of Patrick Cunningham with Citi.

Rachel Lee^ This is Rachel on for Patrick. On the Industrial Technologies side, can you just expand maybe on which parts of the portfolio is maybe accelerating higher than others? And what sort of order book visibility you have there?

Antonella Franzen^ Yes. I'd say we saw a really nice performance from an organic growth perspective on both the Building Technology side as well as the Industrial Technology side. So in Building Technologies, we were up low single digits. That's our construction-type business. We did see growth across residential and non-residential is really what drove it. To one of the points that Lori had mentioned earlier, I would say we're clearly outperforming in the residential space, given the market, I would say would be down, and we had some growth in that area.

We're a bit more in line, I would say on the non-residential as well as the repair and remodel side of the house. Then when you look at Industrial Technologies had a really nice quarter, organic growth in the mid-single digits. The order book is doing well. We're seeing the nice inflection there. We're starting to see that short cycle come back. We do expect to see -- to continue to see the growth that we saw in the second quarter kind of progress into the second half of the year.

Rachel Lee^ Got it. That's very helpful. And could you just talk about the level of spending driven demand in Water and just expand on whether that growth profile has changed over the last year given the acceleration in AI and advanced nodes.

Lori Koch^ Yes. So on the Water side, it's really providing ultra-pure water to the chip manufacturer. So that's where we saw the nice growth. I would say it was kind of up in the +20% range where we've kind of seen the past several quarters, and we expect it to continue to grow. So as you know obviously the AI revolution continues to take hold. We've got participation in the Water business with respect to the ultra-pure water opportunity.

Operator^ Your final question comes from the line of Abigail Eberts with Wells Fargo.

Abigail Eberts^ One more on residential construction. Can you just speak to what drove that above market growth there?

Antonella Franzen^ Yes. For us, it was predominantly in the multifamily space that we're -- we have a nice position in. We saw some nice growth there within the quarter. I would say single-family homes continues to be, I would say very soft in the space, but we did see some really good activity in the multifamily that was driving our residential space.

Operator^ That will conclude our question-and-answer session. I will now turn the call back over to Ann Giancristoforo for closing remarks.

Ann Giancristoforo^ Great. Thank you, everyone, for joining our call today. For your reference, a copy of our transcript will be posted on DuPont's website. This concludes today's call.

Operator^ Ladies and gentlemen, thank you all for joining. You may now disconnect.