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DuPont de Nemours, Inc. (DD) CEO Marc Doyle on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.96 beats by $0.01 | Revenue of $5.43B (-73.04% Y/Y) misses by $-9.42M

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DuPont de Nemours, Inc. (NYSE:DD) Q3 2019 Earnings Conference Call October 31, 2019 8:00 AM ET

Company Participants

Lori Koch - Investor Relations

Marc Doyle - Chief Executive Officer

Jean Desmond - Chief Financial Officer

Ed Breen - Executive Chair

Conference Call Participants

Jeff Sprague - Vertical Research Partners

Vincent Andrews - Morgan Stanley

Christopher Parkinson - Crédit Suisse

Scott Davis - Melius Research

Steve Byrne - Bank of America

David Begleiter - Deutsche Bank

Jonas Oxgaard - Bernstein

John McNulty - BMO Capital Markets

Bob Koort - Goldman Sachs

John Roberts - UBS

P.J. Juvekar - Citi

Arun Viswanathan - RBC Capital Markets

Frank Mitsch - Fermium Research

Laurence Alexander - Jefferies

Mark Connelly - Stephens Inc

Jim Sheehan - SunTrust

Operator

Good day and welcome to the DuPont Third Quarter 2019 Earnings Call. Today's conference is being recorded.

And at this time, I would like to turn the conference over to Lori Koch. Please go ahead.

Lori Koch

Good morning, everyone. Thank you for joining us for DuPont's Third Quarter 2019 Earnings Conference Call. We are making this call available to investors and media via webcast. We have prepared slides to supplement our comments during this conference call. These slides are posted to the Investors section of DuPont's website and through the link to our webcast.

Joining me on the call today are Marc Doyle, Chief Executive Officer; Jean Desmond, our Chief Financial Officer; and Ed Breen, Executive Chair.

Please read the forward-looking statement disclaimer contained in 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 second quarter Form 10-Q as may be modified by our subsequent periodic and current reports includes a detailed discussion of principal risks and uncertainties, which may cause such differences. We will also refer to non-GAAP measures. A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained in our press release and posted on the Investors section of our website.

I'll now turn the call over to Marc.

Marc Doyle

Thanks, Lori, and good morning, everyone. Starting on slide 2, we delivered organic sales and adjusted EPS in line with our expectations by staying focused on our competitive strengths and the earnings drivers within our control. Although, our operating EBITDA was slightly below our forecast, primarily due to unanticipated currency headwinds we were able to maintain gross margins and continued to expand our EBITDA margins even as the U.S. dollar strengthened and several of our key end markets remained challenged.

We enabled this performance through continued price improvement, driving our synergy savings and advancing our restructuring program. Combined these actions delivered an additional $145 million of savings this quarter and we are on track to deliver greater than $500 million for the full year. Our team is laser-focused on these priority initiatives as we continue to navigate the macro uncertainties.

Turning to slide 3, our volumes continued to be impacted by the slowdown in both the automotive and semiconductor end markets, that is also affecting many of our peers. However, there are still many exciting areas within our portfolio such as water and pharma that continue to post strong results. All in, global sales of $5.4 billion were in line with expectations at down about 2% on an organic basis. Organic sales in our core segments were down about 1.5%. As noted, while we are seeing continued weakness in a few end markets, there are many bright spots in our portfolio that are performing very well. Highlights here are aerospace in T&I and S&C, pharma and plant-based foods in N&B, water in S&C and premium smartphones in E&I, which in total account for approximately 15% of our sales and were up 7% in aggregate versus the prior year.

In smartphones a market that continues to face challenges, our ability to deliver higher content in the newer models enabled our Interconnect Solutions business to deliver 8% higher revenue in the quarter versus prior year, a marked improvement from the first half when sales were down 10%. This outcome demonstrates the value of our innovation engine and the power of our close customer relationships. Our reputation for working closely with our customers to deliver the technology they require sets us apart and enables us to drive pricing and demand in a rapidly changing market like smartphones.

Our more sluggish markets of automotive and semiconductor are experiencing negative growth year-over-year. These areas, which account for a little more than 20% of our portfolio, were down 11% and 3% respectively. We believe destocking in semiconductors is now behind us and we're starting to see indications of stabilization in automotive channel inventories. I am confident our businesses will ultimately outperform, driven by their strong position and broad technology portfolios to address key trends such as hybrid and electric vehicles and the transition to 5G and enabling the Internet of Things.

Regionally organic sales were flat in the U.S. and Canada, down 3% in EMEA, down 4% in Asia Pacific and down 4% in Latin America. Weakened automotive end markets continued to drive the declines in both Asia Pacific and EMEA. However, total sales in China, the market which turned down sharply for us last December, posted its strongest results this year and were down year-over-year in the quarter by 2% versus down 10% in Q1 and 3% in Q2, each versus the same period last year, definitely an improving trend for us.

Turning to Slide 4. Adjusted EPS was up 2% on a pro forma basis versus the prior year. As noted, currency was a headwind in the quarter, reducing EPS by $0.03. Our segment results excluding the impact of currency were a net $0.02 headwind to adjusted EPS, while depreciation and amortization and a lower share count both contributed to our EPS growth.

To provide a little more color on our segment results, I'll cover some of the key operating EBITDA drivers. Operating EBITDA of $1.4 billion was down 4% versus the prior year period. We again delivered operating leverage, further demonstrating our ability to drive price and operating efficiencies amid challenging market conditions. We delivered operating EBITDA margin improvement of 20 basis points versus the prior year.

Our strong price and cost discipline was partially offset by a weaker mix with volumes in our higher-margin businesses, primarily Semiconductor Technologies, posting softer results in the quarter. We also experienced higher manufacturing costs, driven by planned maintenance activity, primarily in the Safety & Construction segment, as well as lower production rates, driven by weakened volumes in our T&I and Non-Core segments.

Before I turn the call over to Jean to discuss the quarter in further detail, I'll cover our full year guidance on Slide 5. For the full year, our expectation for organic sales remains unchanged at slightly down. Our forecast for total annual sales, including the impact of currency and portfolio is about $21.5 billion.

We are narrowing our adjusted EPS range of $3.75 to $3.85 per share to $3.77 to $3.82 per share, maintaining the midpoint of the prior guidance. This adjustment reflects second half currency headwinds of approximately $45 million versus our original expectations. In the appendix, we provide segment-level commentary as well as some additional modeling guidance.

Overall, I am confident in our ability to adapt as market conditions evolve, while continuing to make smart, high-return investments to enhance our portfolio. Our relentless attention to cost and pricing discipline, coupled with the benefits of our ongoing investments in innovation will deliver bottom line growth when market conditions improve. Our focus on driving improvements in ROIC is the right mindset for the long-term strength of the company and every part of the organization is committed. We are working all the levers in our control to deliver on our earnings commitments and drive shareholder value.

I'll now turn the call over to Jean to discuss the segment results.

Jean Desmond

Thanks, Marc. Starting with Electronics & Imaging on Slide 6, net sales of $934 million and operating EBITDA of $320 million were in line with our expectations and demonstrates that the second half improvement we have been forecasting got off to a solid start in the third quarter. Sales in China for this segment were up nearly 30% versus the year-ago period, reflecting a second straight quarter of sales growth. This result was partially enabled by higher content in the next-generation smartphone.

Our Semiconductor Technology business was down low single-digits versus the year-ago period, but was up mid-single-digits versus the second quarter. We believe, this sequential improvement indicates that the softness we saw in Semiconductor Technologies in the second quarter due to high channel inventory is resolving. And our current expectation is that the semiconductor market recovery will continue returning to growth during 2020.

Operating EBITDA margins for the segment were flat at 34%. Softer volumes in Semiconductor Technologies our highest-margin business was a headwind to segment margins. This headwind was offset by a gain associated with a planned asset sale.

Moving to Nutrition & Biosciences on Slide 7. Momentum in our Nutrition & Biosciences segment continued with another quarter of organic sales growth. The strength of our N&B portfolio is its breadth, which enabled low single-digit organic growth amid well-documented near-term market-driven softness in biorefineries and probiotics. Third quarter organic growth was led by Food & Beverage volume gain, which were driven by strength in specialty proteins and cellulosics from growing demand in plant based meats.

Other highlights included high single-digit organic growth in Pharma Solutions, as well as strength in the food enzyme and animal nutrition business within Health & Biosciences.

We continue to be a market leader in probiotics and remain confident in the long-term growth of this business. We expect that probiotics growth will continue to be fueled from Asia Pacific where current market penetration is low as compared to other regions but growing steadily. September year-to-date probiotics in Asia-Pacific has grown double digits. Operating EBITDA margins in Nutrition & Biosciences are essentially flat with the prior year.

Transportation & Industrial recorded net sales of $1.2 billion, down 10% on an organic basis with a 1% price improvement more than offset by an 11% volume decline. Our results reflect continued demand softness and destocking in the global automotive market and weak electronic volume.

While global auto build remained relatively steady with last quarter from a year-over-year perspective, inventory destocking continued to negatively impact our results. We are pleased that we maintained pricing strength in the quarter versus the prior year, but anticipate that the rebalancing of the nylon 6,6 supply chain will influence pricing and volume as we look to the remainder of the year.

Operating EBITDA declined 20% versus the prior year-ago period with pricing gains and cost reductions more than offset by the impacts from lower volumes and currency headwinds.

Turning to the results of Safety & Construction on slide 9. Net sales of $1.3 billion were up 2% on an organic basis. Operating EBITDA of $352 million was up 1%. Continued pricing strength and productivity action drove operating EBITDA margins up 80 basis points versus the prior year. Year-to-date, operating EBITDA margins are up 370 basis points.

Our top line results were consistent with the second quarter. We realized pricing gains across all businesses, which is now our seventh consecutive quarter of pricing gain in S&C.

Likewise strength in Water Solutions where we continue to see strong demand in industrial and wastewater treatment markets was offset by softness in North American construction end market.

Demand for our Safety Solutions segment remains robust but was negatively impacted by planned maintenance activity as well as outages at some of our key raw material suppliers causing us to have to curtail aramid production. S&C continues to improve their cost structure and has raised their operating EBITDA margins above the company average. A commitment to value in use pricing and a relentless focus on productivity is driving EBITDA margin improvement.

Turning to the balance sheet on slide 10. You'll see that our net debt has remained relatively consistent at $15.5 billion with slightly higher commercial paper balances, which we expect to reduce by year end, offset by higher cash balances as of September 30th.

As I've said before, our capital structure has been in place for several quarters now and we feel good about our position. It provides us with the flexibility we need while maintaining our investment-grade rating.

You can also see the improvement we have driven in working capital in the quarter. Both accounts receivable and inventories are down as compared to June 30th, providing a working capital benefit. This is slightly offset by lower accounts payable balances.

Capitalizing on our working capital opportunity remains a focus area for us. Our working capital levels did rise coming out of separation, but I'm pleased with the progress we've made this quarter and expect additional improvement in this area. The gains from working capital improvement and well-controlled capital spending enabled us to exceed our free cash flow conversion target of greater than 90% for the quarter.

We also made additional progress on our share buyback program. Repurchases now totaled $600 million since June 1st and you can anticipate a similar pace through the end of the year. To date, we've returned greater than $800 million to shareholders.

Let me close with a few comments on ROIC. We remain on track to deliver meaningful ROIC improvement as the portfolio came together. More importantly, however, is the mindset shift of the organization, which is now returns-focused. Our major capital and R&D spending is appropriately derisked. Our teams understand the importance of ensuring these dollars strengthen the bottom line and improve ROIC.

I'll now turn the call over to Ed.

Ed Breen

Thanks Jean. I continue to be impressed by our team's ability to advance its strategic priorities in tough market conditions. They have stayed relentlessly focused on execution and it is visible in our results. At the same time, I want to emphasize that we are well aware of the value creation potential inherent in this portfolio. We are actively pursuing strategic portfolio transactions that will drive increased shareholder returns and sustainable long-term growth.

We also continue to refine the portfolio even as we assess more significant portfolio reconfiguration. This past quarter, we completed the sale of the Sustainable Solutions business from the Non-Core segment, and in Q2, we completed the sale of the Natural Colors business from N&B. Both divestments had lower margin profiles than their segment and the total company average.

Additionally, we announced the planned divestment of the silk and carbide business in E&I for $450 million in cash. Once we close, we will use the net proceeds in a way which further enhances shareholder value. We continue to look for opportunities to monetize our Non-Core businesses, and we plan to make significant progress over the coming quarters.

We are also looking for bolt-on acquisitions targets to further strengthen our high growth industry-leading businesses. Recently, we announced the intention to make two strategic acquisitions in our Water Solutions business, an area of significant growth opportunity.

By enhancing our capabilities in ultrafiltration, we are building on an already strong position with additional capabilities and value-added solutions that will drive top line growth. Water is a vital end market driven by significant demand trends and our portfolio is advantaged in the space as evidenced by our 6% organic growth during Q3. Overall, we are focused on both organic and inorganic growth opportunities.

Before we turn to Q&A, I want to address a couple of areas that I know are on your mind: The PFAS litigation and the Chemours suit. PFAS is a broad term that covers a variety of substances including PFOA and PFOS. For your information, the firefighting foam tuts relate largely to PFOS, a chemical that the Chemours and we including historical DuPont never made.

The same is true for firefighting foam. As to the PFAS matters themselves, we feel these liabilities are well-managed and we have every confidence in our position. As a testament to that, we have passed the second year of a five-year sharing agreement with Chemours and we still have paid $0 to them.

As to the Chemours suit, the spin-off of heritage DuPont's performance chemicals business into Chemours complied with all applicable legal requirements and followed standard practices relating to such transactions and we are confident in our position.

Earlier this month, Chemours filed a response which implied that the historical DuPont Board did not intend for Chemours indemnification liability to be uncapped. This is simply wrong. The materials reviewed with the historic DuPont Board and the June 15 meeting at which the spin was unanimously approved clearly and unequivocally state that the indemnification liabilities are uncapped.

In addition to the board materials, there are numerous other documents which clearly show that the liabilities are uncapped. Furthermore, Chemours itself reaffirmed the Separation Agreement as part of the 2017 amendment, which undoubtedly states the liabilities were to be uncapped.

As you know, Corteva and DuPont jointly filed a motion to dismiss the complaints, because this matter belongs in arbitration as provided in the Chemours Separation Agreement. We will file our final response in early November after which the court will respond to our request for dismissal. If there are additional questions on this, we can discuss these further during the Q&A section of the call.

In closing, our results illustrate our commitment to our key principles: the fundamental value of deep customer relationships, ongoing investments in innovation and optimizing the efficiency of the organization. The team continues to stay laser-focused on executing against these priorities to deliver increased value to our shareholders.

I'll now turn it over to Lori to open up the Q&A.

Lori Koch

Thank you, Ed. With that let's move on to your question. First, I would like to remind you that our forward-looking statements apply to both our prepared remarks and the following Q&A. [Operator Instructions] Operator, please provide the Q&A instruction.

Question-and-Answer Session

Operator

Thank you. Operator Instructions] We will take our first question from Jeff Sprague with Vertical Research Partners.

Jeff Sprague

Thank you good morning everyone. Thanks for the comments on the broader portfolio and the like. Also I was just curious that in addition to what you've identified as Non-Core right, you've got kind a number of things that are still sitting in the segments and kind of coming out and without identifying businesses perhaps.

But can you give us a sense of, how much revenue might actually be sitting in the four segments as kind of, "ongoing business" that really hasn't met that threshold in your view?

Ed Breen

Jeff, it's very small. We did sell a business you saw recently that had not been in Non-Core. We got a nice price for it, it wasn't as strategic to us. There's a couple of more things like that. But generally speaking, Marc, Jean and the team are really focused on moving out the Non-Core. Every one of them is in motion.

You've seen we've made a few announcements already, but every one of them is actively being worked at this time. So that's the heavier lift is to get that done and get the cash in, so we can redeploy it smartly for our shareholders. And then just to reiterate your opening comment there. Obviously, the team is extremely busy on looking at some transformational moves. And I would just say, we're in 7-day a week work mode right now if I could say it that way and really looking at that heavily to move a couple of things.

Operator

And we will take our next question from Vincent Andrews with Morgan Stanley. Please go ahead.

Vincent Andrews

Thank you and good morning everyone. Maybe if we could just get a little more detail in the electronics piece particularly as it relates to smartphones and the good sell-in you've been seeing. How much of that is really related to just there's more content of your products in the phones versus there has to be sort of an inventory load of these phones or maybe greater production to build into the channel?

So I guess what I'm asking is, how long and how sustainable is this strong sales trend? And ultimately do you have a difficult comparison against it?

Marc Doyle

Yes. Thanks Vincent. This is Marc. I'll take that one. You're right. It's a combination of builds for the new phones and the higher content in the new phones that's driving the kind of half-over-half sales increase most of which hits our ICS segment, Interconnect Solutions in E&I.

And we view that -- so what's really happening here is, as the phones start to become more 5G-enabled, there are more high-frequency materials inside including antennas that pick up the signals. And we have a number of products that go into there including some next-generation Kapton-based laminate materials.

And that's expected to continue to grow through 2020, 2021 as more and more of the new phone models have these antennas and these higher-frequency capabilities. And so, while it's a nice growth driver in the second half of this year we do expect it to continue for several years.

And just to bring it back to the new Kapton line, we announced a couple of quarters ago that new Kapton production line, the demand there is largely driven by these trends in 5G for next-gen handsets.

Operator

And next, we will hear from Christopher Parkinson with Crédit Suisse. Please go ahead.

Christopher Parkinson

On the outlook for N&B in 2021, there's just been some recent volatility in quarters due to market-based factors as well as some facility downtime in pharma. Can you just refresh our memory on your general growth expectations for the components of the N&B portfolio? Specifically probiotics, specialty proteins and Pharma Solutions, as well as any key macro variables driving each substrate? Just trying to get a sense of the normalized outlook from both a growth as well as mix margin perspective? Thank you.

Marc Doyle

Yes. Chris this is Marc. I'll take that one too. So as you said there are some good midterm growth drivers here in N&B and you highlighted a few of the key ones. We continue to have a lot of confidence in the probiotics market as a long-term double-digit growth market. It's driven by new health indications, new products, as well as just the continued penetration of probiotic usage into the nutritional supplements market.

Asia is a huge growth driver for probiotics consumption, growing double-digits. So we like those long-term dynamics.

You also mentioned specialty proteins. The whole space around plant-based foods, which is -- or plant-based meats, which is relatively small today from a specialty food ingredient sales standpoint for us less than $100 million, we think that that's got a good long-term double-digit growth trajectory too. And then you mentioned pharma excipients. And certainly the pharma space is a nice kind of mid single-digit growth space. So those dynamics are still very solid. They're great long-term growth, secular growth drivers for N&B. I'd also mention these are higher-margin parts of the N&B portfolio. So as they grow, we'll continue to see an uplift on our margins.

Christopher Parkinson

Thank you.

Operator

And next, we will hear from Scott Davis with Melius Research. Please go ahead.

Scott Davis

Hi, Good morning.

Ed Breen

Good morning, Scott.

Scott Davis

I'm glad to be calling in on my first call here.

Ed Breen

That's right.

Scott Davis

I got several questions I can get away with it for a while as the new guy. Ed, I'm kind of intrigued by your comments on trying to drive this Chemours thing into arbitration. But can you really -- can you talk to us about what you think the timing is? If there is two potential outcomes here, you're going to get an outcome that drove it into arbitration. Is that something that can happen in the next 12 months? Or does this all kind of grind to a halt just with the legal system and its delays it should inevitably have?

Ed Breen

Yes. Scott, I think having been through some of these before and certainly talking with our counsel on this, if it goes to arbitration, which is clearly what the documents say I think it resolves itself much quicker, because that process is just a faster process. So I would think during 2020 that would resolve itself. The timing by the way as I mentioned in our prepared remarks, we're filing our final brief over the next set of days here. And there could potentially be oral arguments that would occur. So I wouldn't expect necessarily the judge to rule on this for instance during the month of November. It's probably out just a little ways, if they happen to go through oral arguments, which is not an uncommon thing in this case. So pending that happening it could be a little bit of time before we hear that.

But again, I think an arbitration process would be a lot quicker going through the legal system would be a little bit longer. So that's kind of how I would handicap it at this point in time. But by the way, I would just reiterate and I said this in my comments, but just to kind of put an exclamation point on this. I mentioned a few documents with the uncapped language. There's also filings by Chemours, public filings that they signed by their Chairman and CEO that talked about uncapped documents. And I would not even venture to tell you how many e-mails there are in the system that talk about uncapped liabilities. So it's very cut and dry in all the documentation throughout the company.

Operator

And next, we will hear from Steve Byrne with Bank of America. Please go ahead.

Steve Byrne

Yes. Thank you. Appreciate the disclosure on the PFAS. You make a comment in here that you've never sold PFOA. I was curious whether in the years that DuPont manufactured products that PFOA was used in the process, was it simply a surfactant used as an aid in the manufacture of a product or was the product derived from it and contained in the product that you sold?

Ed Breen

No. It was used in the process. And remember, look the clarification I think a lot of this gets blown out of proportion because of articles that are written and we seem to get our name up in a lot of them. But it was -- we used it in a manufacturing process in four manufacturing facilities in the U.S. That's it. We didn't have it in our end products. By the way, my -- the comment I made where more of the legal issues are and more of the locations are is firefighting foam. DuPont and Chemours never had anything at all to do with firefighting foam. So I think people blow it up a little bit more here, but it's literally four locations. Chemours is liable for it and we've been doing groundwater remediation in those locations for quite a few years. And by the way it will continue for many years.

And by the way a very key point here with all the talk around this the last -- we're two years now as of July 1 into the 5-year agreement with Chemours, where Chemours pays the first $25 million in a year and then DuPont will chip in the next $25 million. And then after that it's a Chemours liability.

In two years now, we have not paid a penny, because Chemours has not gone over the $25 million limit. I would also say that we have some things we would like to clean up. We're clearly in close communication with Chemours on this. We have about 64 personal injury claims.

Remember we settled 3550 of them all from one location by the way. And we have about I think 64 more there. It would be nice for us to get those resolved. And then we'll continue the groundwater remediation at the four locations that I mentioned. So I think we have this thing well contained, well boxed in. And over time, we'll get a couple of these other things cleaned up like the personal injury cases.

Operator

And next we will hear from David Begleiter with Deutsche Bank. Please go ahead.

David Begleiter

Thank you. Good morning. Ed does the Chemours lawsuit have any impact on the timing of the portfolio actions? And I know it's hard to say but any sense of when we might see the first of these transactions from a timing perspective? Thank you.

Ed Breen

Well -- well no. The Chemours suit will have no bearing on any strategic actions we take on the portfolio. And look I can't talk timing but let me just go back to the comment I made a few minutes ago where Marc, Jean, me we're all -- we're in a seven-day a week mode right now. It feels like back when we were doing stuff of talking to Dow and getting things going. So we're busy. We know what we want to do and we're pursuing.

Operator

Next we will hear from Jonas Oxgaard with Bernstein. Please go ahead.

Jonas Oxgaard

Good morning, guys.

Marc Doyle

Good morning, Jonas.

Jonas Oxgaard

I was wondering which Halloween candy you're more exposed to.

Marc Doyle

I want some of that candy by the way.

Jonas Oxgaard

I figured it had to be. More realistically well coming back to the divestiture of the wafer business, can you talk a little bit more about the process leading up to this? Is that something that you shopped around? Were you approached? Was there a strategic review beforehand?

Marc Doyle

Yes. Jonas, it's Marc. I'll take that one. And yes, so like the other Non-Core divestitures we've tried to run good disciplined processes. So this was a case where we knew there would be some strategic buyer interest because of the growth in silicon carbide. And so we tried to move as quickly as we could to take advantage of kind of the industry dynamics in that area. And we ran a good process multiple buyers. The final bidder that won obviously was the best offer that we got.

Operator

And next we will hear from John McNulty with BMO Capital Markets.

John McNulty

Hey, thanks for taking my question – thanks for taking my question, guys. So, on the innovation pipeline that's going to help to keep driving your business better than GDP I guess, can you give us some thoughts on how that pipeline will contribute in 2020? Or put another way, if we have a flat macro environment, how can we be thinking about the organic growth tied to some of the innovation that you're bringing out?

Marc Doyle

Yes, John, it's Marc. I'll take that one. I mean, we're really confident in the strength of our innovation pipeline right now. And I think honestly it's never been stronger than it is. We've really focused around a small number of very powerful themes with our innovation spend. We're still spending about -- around about 4% of sales on R&D. Expectations from me for sure that we're going to get more out of that the investment than we maybe ever have historically.

A couple of the big themes that we're spending around auto electrification is one. We've got multiple new product innovations in that space enabling lightweighting, enabling heat removal from battery packs, enabling miniaturization of electric motors and inverters, a lot of high-performance materials. And that's both new launches and customer qualifications.

We're also spending very aggressively on 5G. We mentioned earlier some of the uptake in antenna materials. Those are based on new product launches that are happening this year. We have some additional new innovations coming in high-frequency that will roll out over the next couple of years out of the pipeline.

And then maybe a third area, I'd just mention is microbiome. The broader space than probiotics is about not just more bacterial strains with new clinical indications but also how can we attach additional offerings to our probiotics business, which is currently the leading franchise in probiotics. But we're trying to double down and bring out new offerings like additional services, data prebiotics and more advanced sort of complex formulations that can further sort of double down on the growth in that space. So I'm really bullish on the pipeline. I'd stay away from giving a specific revenue number for next year till we're ready to roll out our 2020 guidance. But I think the innovation pipeline's very strong.

Operator

And next we will hear from Bob Koort with Goldman Sachs. Please go ahead.

Bob Koort

Thank you. Good morning. I was wondering, if I could ask about margins in your transportation and industrial business. It looked like the decremental margins there were pretty painful on the volume loss. So, I guess a combination question. When would you expect given the current environment to see those volume comparisons get a little bit more level? And then secondly, what would you think about your incremental margin expansion as volumes come back in that business?

Marc Doyle

Yeah. Bob let me kick it off. This is Marc. And then I'll hand it off, if Jean wants to add anything. I'd say – I mean, you're certainly right. Volumes have been really soft this year. In T&I business and in particular the nylons and plastics are relatively lower gross margin businesses, so there is a significant loss of leverage, when the volumes soften. Price has been softening too as a result of the weak demand in the industry and so that's also hurting the margins. We've talked about this now for a couple of quarters as being not just the weakness in the industry, but also destocking in our channels, which is exacerbating. And that's why while the auto market is down mid-single digits we're down even higher than that.

We are expecting that this will stabilize at some point. Hard to call based on the uncertainty this year. But going into the fourth quarter, we're currently seeing inventory levels relatively stable in the channel. We're not seeing a pickup in demand, but we are seeing some signs of some sequential improvement. So September as an example was a pretty good month versus 2019 for us. So, again hard to call. In terms of the actions that we're taking, Jean do you want to –

Jean Desmond

I mean, I think T&I is an example differentially managing our businesses whereas you look across the portfolio you'll see the lowest kind of selling R&D expense in this business. And I give Randy and his team a lot of credit. As we've gone into this year, we saw the steep drop off in December they very quickly – December of last year. They very quickly took action to further right-size the business and take cost out. So that gives me a lot of confidence that we get through destocking we see a rebound in auto builds that this business is going to be very well-positioned to benefit from that.

Ed Breen

Well, and probably we've run historically over auto build in this business as you know until the destocking kicked in pretty severely in mid-December last year. So we get through destocking at least we'll stabilize kind of around to where auto builds are plus some increment to that with the content that we drive into the end market. So that will play out in the near future.

Operator

Next we will take a question from John Roberts with UBS. Please go ahead.

John Roberts

Thank you. Did your animal nutrition business benefit at all from swine fever in China? And I was surprised that the food enzyme business was up. I thought the weakness in food ingredients was a little bit more broad-based than just probiotics.

Marc Doyle

John, I'll take that. No not a huge benefit. Animal nutrition has been a good market for us, because we've had a very strong franchise around the phytase area. And so we're benefiting kind of from global growth characteristics more meat usage. And then around food enzymes, I mean, we're – as you're probably aware, we're not the largest supplier of food enzymes. We are seeing very attractive growth off a relatively small base and so food enzymes continue to be for us kind of a high single-digit growth.

Animal nutrition by the way in the quarter was about a mid-single-digit 5% growth. So those are bright spots in the enzymes portfolio. I would say, the segment – Health & Biosciences segment within Nutrition & Biosciences was down about 1% this quarter. And so it was a little bit soft overall. But those were some of the bright spots.

Operator

And next we will hear from P.J. Juvekar with Citi. Please go ahead.

P.J. Juvekar

Yes, hi good morning.

Ed Breen

Good morning, P.J.

P.J. Juvekar

Ed on your potential strategic transactions, can you make some general observations about M&A multiples that you're seeing given the falling rates?

And then secondly there, is PFAS liability becoming a sticking point in negotiating these deals? Thank you.

Ed Breen

Yeah. P.J. yes thanks for the questions. No the PFOA has not been an issue in things that we're looking at and working on. So I'll just -- I'll leave it at that. It doesn't concern me. And just from a multiple standpoint, it's hard to answer that but I'll just say broadly multiples are very good when you're looking at transactions right now. And by the way just to give you one, I think multiples in the N&B type sector are at all-time highs right now. And I think a lot of that is it's just a steady business, a steady industry, which kind of recession proof. People are going to eat. And they command multiples up around 20% the real premium companies, which I think we are the premium company in the space. So multiples are not an issue in what we're working on.

Operator

Next we will hear from Arun Viswanathan with RBC Capital Markets. Please go ahead.

Arun Viswanathan

Great, thanks. I'm just trying to understand the earnings algorithm from here. Could you kind of touch on your outlook for cost reductions and synergy capture if there's any left into 2020? And then similarly assuming price is going to offset FX, what will be the main drivers that would help you get some volume growth next year? Thanks.

Jean Desmond

Sure. Thank you. Let me first address synergies. So as we look at 2019, we had about $450 million of synergies through the DowDuPont and we're going to wrap that up in 2020. We have about another $160 million, $165 million synergies in them when we finish that program.

The good news is and we talked about this the last quarter that productivity is in our DNA. It's really important. I talked about the work that Randy and his team have done and other parts of our businesses as we've come into 2019 to deal with the softness in some of our end markets. And so we've taken productivity actions this year and that's going to give us a bit of a tailwind as we go into 2020 as well. So you can think about maybe another $50 million plus of benefits from the timing of those actions going into 2020.

In terms of our broader 2020 guidance, we're going to talk about that more when we announce fourth quarter earnings late January, early February. But I think we're looking at similar macro dynamics from 2019 into 2020. We're going to be fairly cautious as we think about 2020. But there are certainly bright spots in our portfolio that we continue to be excited about whether it's probiotics, pharmaceuticals, water, the aerospace business is doing quite well. And then we've got the continued challenging dynamics with the tariffs and trade that are impacting, of course, most clearly auto but also electronics to some extent.

Ed Breen

Just to reiterate what Jean said. We as a management team Marc and Jean and I all of us we're saying, let's plan for, kind of, the macro we have now. Clearly hopefully during the next months some resolution on China tariffs occurs, so that would be a green shoot. And I think the biggest green shoot for all of us in the industrial sector is, obviously, everyone is easing all over the world.

I think I was looking at 32 countries the other day that are all -- have easing going on. And clearly that -- most experts tell me that kicks in eight, nine months later with some positive momentum. So there's some green shoots out there, obviously, that could be helpful to us. But it -- we're like don't count on any of that, let's just plan conservatively. And we'll tee ourselves up properly from a cost structure and all as we go into 2020.

Operator

Next we will hear from Frank Mitsch with Fermium Research. Please go ahead.

Frank Mitsch

Hey, good morning, and pretty impressive results out of China. You mentioned that it was largely premium smartphone-driven. I'm just curious what percent roughly are you manufacturing in country? And can you talk about the trade flow issues and just in general what the tariff conflict has impacted DuPont and what your outlook is there?

Marc Doyle

Yes. Frank, thanks. This is Marc. I'll take that one. The rough number on our China sales we have about 15% of our sales into China. A decent portion is manufactured locally. But I'd call it maybe about half-ish of the sales. We do have some products that are manufactured in the U.S. that are sent over to China. That's a smaller portion of the total because we're also manufacturing around Asia too and shipping into China.

As a result the tariff impact is not real huge for us. When you look at that portion that's direct sales in terms of dollars it comes to about $50 million on a full year basis of tariff impact so -- pretty well mitigated for a company our size. I think it still going to be a positive when we see a resolution to the U.S.-China trade disputes. But the positive is not so much the direct impact of the tariffs it's more just the stimulus to the economy, the industrial growth in China and obviously the industrial growth in Europe and the U.S. And we think that's a much bigger lever for us than the direct tariff impact.

Operator

Next we will hear from Laurence Alexander from Jefferies. Please go ahead.

Laurence Alexander

Good morning. Could you just clarify two things? The -- is any signs of a sequential improvement in China ex electronics? And the comments about nylon 66 rebalancing how much of an impact that has been and what that means for 2020?

Marc Doyle

Yes. Laurence I'll take that. And so in terms of China ex electronics yes we've been pretty strong in S&C pretty strong in N&B through the year. Those have continued to hold up well in China. T&I which has been down significantly we're not seeing a significant rebound as yet. So that's the exception. And then electronics obviously was a big trajectory change in China. And then the second question around nylon 66 was...

Jean Desmond

Yes. I mean I think if you look at T&I we did see sequentially a pricing decline from second quarter to third quarter of about 2%. And we would expect to see some continued -- the same continued dynamic as we go into fourth quarter with.

Operator

And next we will hear from Mark Connelly with Stephens Inc. Please go ahead.

Mark Connelly

Thank you. If I could just ask how -- you've given us a lot of information on a lot of different businesses and the economic impact. But if we were to strip out the macro impact how would you rate your performance relative to where you thought you would be on controllable issues? And how do you see the opportunity over the next year in controllables? Is it more on the revenue side or is it more on the volume and product side?

[Technical Difficulty]

Operator

Pardon the interruption. We are unable to hear the presenters. And please standby as we are experiencing some technical difficulty.

[Technical Difficulty]

And Mark, if you could repeat your questions.

Mark Connelly

Sure. Ed, you've talked a lot about what your strategies are in the portfolio. But what I'm trying to understand is, if we think about the economy is what it is and you look at what you've controlled and what you want to control, how much opportunity do you see ahead in controllables in this sort of flat macro environment on the cost side versus on the revenue side?

Marc Doyle

Yes. Mark. Sorry about the break there. This is Marc Doyle. Yes. I think we've done a reasonably good job certainly with being aggressive on cost actions. And we think that there's more room to continue to drive productivity around cost. A couple of additional degrees of freedom we have are manufacturing production costs levels of automation. We've also got some opportunities to continue to debottleneck our manufacturing sites because we do have areas where demand is still outstripping supply. And so, those I'd call more sort of self-help related cost actions. I think we've also done a nice job focusing the innovation spend and the capital spend around areas where we have continued upside even in some of the softer market conditions. And I think that those actions will continue to benefit us going forward.

Ed Breen

And Marc, just to add on to that, the team is still working on obviously, the synergies we're capturing the rest of this year, but we have $165 million more of synergies next year. And if you remember, right, I think it was last quarter we announced a restructuring where we were taking -- where we took $30 million out in the second quarter and we were working on -- we are working on $80 million for the second half of this year in addition to the synergies, which will obviously play through 2020 also. And it would -- as a management team; we have many other items we're looking at on the cost side that if we feel like we need to pull those levers next year, we certainly would do that. So, we're kind of preplanning on all of that.

Operator

And we will take our final question from Jim Sheehan with SunTrust. Please go ahead.

Jim Sheehan

Thanks. Regarding PFAS again. There's a movie coming out that invokes DuPont by name and smears the company as being a bad actor. Are there any legal remedies for that that you know of? And are you planning any kind of public response to the allegations?

Ed Breen

Yeah. I'll let Marc comment on some of the things we're doing. But first of all, let me just say, the movie is not true facts. It's quote – well, I think the trailer I saw was inspired by. And I've had a pretty good debriefing on it and it's just not true material in it.

So we have -- I'll let Marc comment. We're doing obviously doing some things for employees and all that so they understand facts and all that. I'm not going to comment on the legal piece. But obviously, we have a lot of legal folks have been looking at this and I'm just going to leave that there for now.

Marc Doyle

Yeah. Let me just build on Ed's comments. I mean, unfortunately in a situation like this it just doesn't do you much good to fight it out in the public eye. And that would just drive more and more attention to it. So, we're really focused internally on our employees, our communities, our families getting the facts out there preparing people for the bad publicity that's likely to come.

As Ed said, this isn't an accurate portrayal of the facts. It's certainly not the company that any of us know. I've been with DuPont for 25 years myself. This is -- the behaviors that you might see in there are certainly not the behaviors that I witnessed at any point in my career. And so, we're really focused on our people and trying to just prepare them.

Operator

And with no further questions, I'd like to turn the call back to Lori Koch for any additional or closing remarks.

Lori Koch

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

Operator

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