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E I Du Pont De Nemours and Co (DD) CEO Discusses Q2 2013 Results - Earnings Call Transcript

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Ellen J. Kullman - Chairman and Chief Executive Officer

Nicholas Fanandakis - Executive Vice President and Chief Financial Officer

Analysts

Don Carson - Susquehanna Financial

Jeff Zekauskas - JPMorgan

Robert Koort – Goldman Sachs

Vincent Andrews – Morgan Stanley

David Begleiter - Deutsche Bank

Laurence Alexander - Jefferies

John Roberts - UBS

Mike Ritzenthaler – Piper Jaffray

John McNulty – Credit Suisse

P.J. Juvekar - Citi

Chris Nocella - RBC Capital Markets

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Frank Mitsch – Wells Fargo

E I Du Pont De Nemours and Co (DD) Q2 2013 Earnings Conference Call July 23, 2013 9:00 AM ET

Operator

Good morning. My name is John and I will be your conference operator today. At this time I would like to welcome everyone to the DuPont quarterly investor call. All lines have been placed on mute to prevent background noise. After the speakers' remarks there will be a question-and-answer period. (Operator Instructions) In the interest of time, management requests that you limit yourself to one question and one follow-up question. And please pick up your handset to allow optimal sound quality. If you have additional questions, you may re-enter the queue.

Thank you. It is now my pleasure to turn the floor over to your host, Carl Lukach, Vice President of Investor Relations. Carl, you may begin the conference.

Carl Lukach

Thank you. Good morning everyone and welcome. Thank you for joining us to cover DuPont's second quarter 2013 performance and our announcements this morning of important senior leadership changes and that we are exploring strategic alternatives for our performance chemicals segment. With me are Ellen Kullman, Chair and CEO; and Nick Fanandakis, Executive Vice President and CFO.

The slides for today's presentations can be found on our website along with our news releases. Please note that we also posted a new document on our website this morning containing our second quarter’s segment performance and outlook commentary and slides. We normally present this information on the call, but by posting this document on our web we can use that time to review our other announcements and take your questions.

During the course of this conference call we will make forward-looking statements. I direct you to slide two for our disclaimers. All statements that address expectations or projections about the future are forward-looking statements. Although, they reflect our current expectations, these statements are not guarantees of future performance but involve a number of risks and assumptions. We urge you to review DuPont's SEC filings for a discussion of some of the factors that could cause actual results to differ materially. We will also refer to non-GAAP measures and request that you review the reconciliations to GAAP statements provided in our earnings release and on the website.

For today's agenda, Ellen will start with opening comments then Nick will review the second quarter financial performance and near term outlook. Ellen would then provide comments about the two additional steps DuPont announced today as we transform to a high growth, higher value company. Then we will have ample time for your questions. With that introduction it's now my pleasure to turn the call over to Ellen.

Ellen Kullman

Great. Thank you, Carl, and good morning and thank you all for joining us. I am pleased to begin today by sharing highlights about how DuPont performed in the second quarter. DuPont reported $1.9 billion in segment operating earnings or $1.28 per share on revenues of $9.8 billion. The quarter came out largely as we expected three months ago except for the added impact that cold, wet weather in the U.S. and Europe had on some of our businesses. In agriculture, the second quarter marked the end to the Northern Hemisphere planting season which spans the first half of our calendar year and our Ag businesses posted industry leading results in seed and crop protection products.

While the weather caused us to incur more costs to service our customers this season and tempered our earnings growth a bit, our leading products in both of our Ag businesses performed at the top of their industries. We saw continued rapid adoption by farmers of our newest AcreMax and AQUAmax seed corn products. And we know see sales of Rynaxypyr insecticide approaching $900 million for the full year. And we are excited about what we see coming later this year in the Latin America growing season.

The second quarter also marked a turning point for our titanium dioxide business. While we incurred a $330 million or $0.27 per share year on year decline in the second quarter operating profit from peak levels last year, our business is rebounding in terms of sequential sales volumes and earnings. Our TiO2 sales volumes in the second quarter increased 12% over last year and 18% over the first quarter. And the increase was spread across all regions. We believe the industry inventory correction that began last year is now mostly over.

Turning now to new products, in the second quarter our DuPont community of scientists and product engineers introduced 465 new products or product applications, bringing the year-to-date total to just over 1000. These new products and applications form a healthy balance of new and replacement products and continued to represent the richness and diversity of our scientific capability. Markets benefiting from our innovative new products in the second quarter include animal nutrition, aerospace and automotive, textile and paper, filaments for cosmetics and new products for photovoltaic with improved environmental sustainability. Examples include the first thermoplastic automotive jounce bumper made from a modified grade of Hytrel, Nomex XF for lightweight fire resistant containers that reduce the risk of onboard fires in air cargo shipments and Axtra bacterial phytase enzymes for superior technical performance and economic benefit in animal nutrition.

With regard to business conditions in the markets we serve, we did see while modest, some signs in the second quarter of sequential demand improvement in industrial markets. Volumes in our performance chemicals, performance materials, safety and protection and electronics and communications segments were up 8% sequentially from the first quarter and 5% when seasonally adjusted, reflecting some improvement in demand from global automotive markets, US housing, military and general industrial markets.

Regionally, our best growth this quarter occurred in developing markets of Europe and Latin America, led by our agriculture businesses and in Avian across all of our business segments. In North America, our safety and protection and performance materials in agriculture segment benefited from the recovery in US housing, low cost ethane feed stocks and a strong Ag environment. In Europe, we continue to see slow growth environment, particularly in the automotive segment. However, sales in our agriculture and industrial biosciences segments were solid and volume in developing Europe was up 10%. Across Asia, we see strong demand for our agriculture products.

In developing Asia, while sales were down 5% in the second quarter, volumes were up 2% and included the steep decline in photovoltaic volumes versus the last year. Second quarter sales in China, excluding photovoltaics increased 4% due to the strong growth in packaging and automotive demand, coupled with improving demand for titanium dioxide. While macroeconomic uncertainty continues and demand levels are far from robust, we continue to expect gradual sequential improvement in the rate of growth and industrial production for markets that demand our products.

Nick will now explain in more detail our second quarter financial performance and our outlook for the rest of the year. Nick?

Nicholas Fanandakis

Thank you, Ellen. Good morning everyone. Let’s start with the details of the quarter on Slide 3, in line with the updated guidance we provided last month, operating earnings of $1.28 per share were down $0.22 versus $1.50 in the prior year. The decline primarily reflects lower performance chemicals operating earnings of about $0.27 per share, largely due to the decline in global TiO2 prices. Consolidated net sales of $9.8 billion decreased 1% versus the prior year. Volume increased 1% led by performance chemicals and safety and protection segments, which had volume growth of 6% and 5% respectively.

On a sequential basis, excluding agriculture and adjusting for seasonality, volumes were up 5% with increases in all regions of the world. We expect this momentum to continue as we head into the second half of the year, particularly in PV, automotive and construction markets. Local selling prices declined 1% primarily due to declining TiO2 prices, which were partially offset by value driven pricing in our agriculture and nutrition and health segments.

Currency also had a negative 1% impact on our top line as the dollar strengthened against most currencies, particularly the Japanese Yen. Let's turn to slide four for more information regarding the company's sales by geographic region. U.S. and Canada local selling prices increased 2% primarily due to value driven pricing in our agricultural segment. The 1% volume decrease in the region was primarily due to the effect of the cool, wet weather had on our Ag sales. However, for the first half of the year, local selling prices were up 3% and volume grew 1% in U.S. and Canada where demand for our Ag products drove this growth.

In fact our Ag sales grew 11% in this region in the first half. In Asia Pacific, higher volume in our TiO2 and Ag businesses was offset by lower volume in our electronics and communications businesses. The 6% decline in local selling prices we experienced in the region in the second quarter was primarily due to lower TiO2 prices as well as pass-through pricing in electronics and communications based on lower metal prices. In Europe, volume growth was primarily due to higher demand for TiO2 and Ag products. However, lower local selling prices were the result of lower TiO2 prices which more than offset Ag pricing gains.

This quarter, Latin America was our highest growth region. Up 7% versus last year. There we saw a 12% higher volume reflecting strong Ag sales which was partially offset by 4% lower local selling prices reflecting lower TiO2 pricing. Now let's take a deeper look into the operating earnings for the second quarter. Slide five provides a segment operating earnings variance analysis. From this chart you can see clearly the large impact the performance chemicals segment had on our overall earnings compared to last year. You can also see the negative impact that the unseasonably cool, wet weather had on our nutrition and health and Ag segments.

Additionally, nutrition and health operating earnings were impacted from higher (inaudible) inventory prices, lower enablers product line volume, onetime cost associated with harmonizing systems and processes and growth investments in this sector. As you all know, the quarter largely represents the completion of the northern hemisphere planting season which spans the first half of our fiscal year. Our Ag segment had another tremendous first half with operating earnings growing about $175 million or 8%. These results reflect strong corn seed insecticide and fungicide sales in North America and Latin America. We expect this momentum to continue into the second half and for the full year we are anticipating our Ag segment to achieve double-digit earnings growth.

Our remaining businesses generally were impacted by sluggish demand in industrial markets during the second quarter on a year over year basis. However, as expected, volumes improved sequentially for many of these businesses in the second quarter versus the first.

On a seasonally adjusted basis, our electronics and communication volumes sequentially increased in the second quarter by 10% on fire PV installations in China. Safety and protection volumes sequentially grew more than 5%, benefiting from higher US demand in ballistics military protection and construction markets. Additionally, performance materials volume sequentially increased on higher demand in automotive and agricultural markets. We anticipate the demand in these markets to continue to improve as we move into the second half of this year.

Moving to slide 6, you can see the decline in segment operating earnings resulted in a $0.31 per share negative impact on our consolidated results. The $0.31 includes a negative $0.03 currency impact for the second quarter. At current exchange rates, we expect the third quarter currency impact also to be negative by about $0.02 per share and for the full year, we are now expecting a negative $0.12 to $0.14 currency impact. This is much higher than our previous outlook of negative $0.05 because the dollar has strengthened considerably during the year. As a result, we anticipate a $0.05 to $0.07 currency headwind in the second half of this year.

The two set benefit from lower corporate expenses that you see on slide 6 reflects this quarter's savings from our 2012 restructuring program. We are on plan to deliver the $300 million in savings that we targeted for 2013. Beyond our restructuring program, we continue to execute ongoing cost productivity initiatives throughout all of our businesses. We are well on our way to delivering our commitment of more than $300 million for the full year from these initiatives. In total, both of these initiatives will combine significantly -- contribute significantly to offsetting inflation and helping to fund our growth investments.

Now let's turn to the balance sheet in cash on slide 7. On a year-to-date basis, the $1.6 billion increase in the seasonal outflow versus last year was due to lower cash earnings and higher Ag working capital, partially offset by lower pension contributions. The higher Ag working capital was primarily due to the timing of customers and production grower compensation payments which were larger this year due to higher commodity prices. In the second quarter, we completed the $1 billion share repurchase program using a portion of the Performance Coatings divestiture proceeds. We are using the remainder of the Performance Coatings proceeds to strengthen our balance sheet and this is the primary reason our net debt decreased by $4.2 billion versus this time last year. This gives us the flexibility to execute against potentially compelling growth opportunities. Additionally, in April our Board declared a 5% increase to the quarterly dividend and just last month we paid our 435th consecutive quarterly dividend.

In summary, second quarter results were in line with our expectations with lower TiO2 prices being the primary costs for the earnings decrease on a year-over-year basis. These results also reflect strong Ag sales for the quarter and for the first half. Last, as we expected, volumes were up 5% sequentially on a seasonally adjusted basis with increases in all regions of the world, including improving TiO2 volumes.

Let's now look forward to the second half. Today, we reaffirmed our full year outlook of about $3.85 per share. As such, we expect operating earnings to be about $1 per share in the second half or about 60% increase over the prior year. The second half outlook includes the additional currency headwind of $0.05 to $0.07. On a seasonally adjusted basis, we expect the sequential volume growth that we saw in the second quarter to carry into the second half of the year, particularly in PV, automotive, military protection, construction and other industrial end use markets. Additionally, we anticipate volume growth in a year-over-year basis to improve, albeit often easier comp. One item that I would like to highlight for you is that we expect the second half earnings to be about 40:60 split between the third and fourth quarters. The reason for the split is largely due to the quarterly split in our Ag segment as well as the sequential improvement in demand we expect for our industrial products which I just discussed.

For the second half overall, we anticipate a smaller seasonal loss in our Ag segment with low to mid-teens sales growth offsetting the negative impact of currency and continued strategic growth investments. However, in the third quarter we anticipate a substantially larger seasonal loss as sales growth will be tempered by reduced corn hectares in Brazil summer season, higher input costs growth investments. On the flip side, we expect earnings to turn positive in the fourth quarter on strong growth in Brazil safrinha corn sales, a strong start to the 2014 North American season and lower input cost from this year's summer production.

In closing, our current market environment is a dynamic one. All of our businesses are staying close to their customers to adapt the changing demand signals and continue to serve their needs. Additionally, our businesses are taking actions to drive productivity in a variety of ways including reducing expenditures and tightly managing their cash. We are also shifting resources as new opportunities are identified. DuPont's leadership remains confident in our business plans and or ability to execute against those plans. With that let me turn it back over to Ellen.

Ellen Kullman

Great. Thank you, Nick. In summary, our second quarter results were largely as we expected with strong Ag performance offset by the cyclical decline in performance chemicals. Looking forward, with the titanium dioxide market recovering, we end anticipating a gradual improvement in demand from industrial markets combined with a strong second half in agriculture in the southern hemisphere. We expect second half operating earnings to be about 60% greater than last year.

Turning to slide eight. Let me share with you now the next steps in the transformation of the DuPont to a higher growth, higher value company. Our alignment of senior leadership responsibility and our exploration of strategic alternatives for our performance chemicals segment. Both steps are fully aligned with our strategic plan to increase the value of DuPont. You will remember that we made important portfolio enhancements in the last two years as part of our plan. These include the $7 billion acquisition of Danisco and our $5 billion sales of performance coatings. Also, we redesigned our cost structure in a way that deliver $2 billion in cumulative savings over the past four years.

On slide nine, a key component of our plan is integrated science. That is our ability to integrate and deploy our advanced scientific capability in biology, chemistry and material, in ways that create innovative solutions for customers, competitive advantage and growth for our company, and value for our shareholders. DuPont has an unmatched set of strong capabilities in foundational science. But an additional differentiator is our unique ability to work beyond the boundaries of a single discipline and find novel, innovative solutions at the intersection. Receiving nearly 1000 patents a year demonstrates my point.

While we have capable competitor in individual scientific disciplines, DuPont's breadth of science is uniquely relevant to where customer demand is heading now in many markets. Simply stated, we are advantaged like no other company to deliver value to our customers and shareholders. On slide ten, the question then becomes, where should we prioritize to deploy our integrated science strategy. We have chosen to leverage our science across three related attractive spaces. These are Ag and nutrition, bio-based industrial and advanced materials. Each of these offers up the opportunity to continue to build a high margin, higher growth company.

With our global scale, market access, broad customer base, and scientific capability, DuPont is uniquely positioned to bring a steady flow of innovative new products to these markets ahead of competition. The application development capability and market access of our advanced material businesses, along with the value-chain relationship and feed stock knowledge of our Ag and Nutrition and Health businesses, offer advantages for DuPont that no other company has. This is where we pull together the true power of our unique integrated science offering across all our businesses.

At our Investor Day on May 2nd, I outlined three strategic priorities we're pursuing at DuPont. First, to extend our leadership in the high value, science-driven segments of the agriculture to food value chain and to leverage the linkages across these segments. Second, to strengthen and grow our leading position as a provider of differentiated, high value, advanced materials through science based solutions. And third to build on our leading position in industrial biotechnology where we can create transformational bio-based businesses in areas like biofuel and biomaterials. Disciplined execution against these three priorities will transform DuPont to a higher growth, higher value company as we address the world population driven challenges of food, fuel and protection of people and the environment.

The two steps we announced this morning emanate from these priorities. The realignment of senior management responsibilities will accelerate deployment of our integrated science strategy across a wide range of materials markets today. We're elevating Jim Collins who is currently President of our Industrial Biosciences business, by adding to his current Industrial Biosciences responsibilities, our performance polymers business and our packaging and industrial polymers business. Under Jim's leadership, Industrial Bioscience has already forged important and expanding scientific and operational synergies with our Agriculture and Nutrition & Health businesses. Now, I'm challenging Jim to accelerate the integration of our leading industrial biopolymers technology across all of our advanced materials businesses. This will be a highly visible integrated science at work.

For example in polymers, our renewable polymer portfolio delivers about $100 million in revenue today. And that number will continue to grow steadily in the future. Of our $4 billion portfolio of engineered polymers, half of that could be renewably sourced in coming years. Integrating renewable technology technologies into our existing polymer products and market positions presents a tremendous competitively advantaged growth opportunity for us and one that we want to invest in and accelerate. It also exemplifies the potential of the new DuPont to deliver what our markets are increasingly demanding.

Next, we're pleased to have Matt Trerotola rejoin DuPont as Senior Vice President with responsibility for our Protection Technologies, building innovation and sustainable solutions businesses. Matt will accelerate our growth plans for some of DuPont's strongest branded products like Tyvek, Nomex and Kevlar and will be accelerating the introduction of new technologies and looking for ways to leverage our science capabilities across other DuPont businesses. Matt's priorities will be to accelerate our growth plans and intensify our focus and discipline in a way that delivers result that meet or exceed the revenue growth and margin target we shared with you eight weeks ago at Investor Day.

Let me share with you now insight into our decision to explore strategic alternatives for our Performance Chemical segment. This segment includes DuPont's titanium technologies and DuPont chemicals and Fluoroproducts. 2012 revenues from the segment were $7.2 billion and [Ti02] was $1.8 billion. These businesses have strong market positions, differentiated products and technologies, attractive global customer basis and they generate high cash flow. They are however the most cyclical and sometimes volatile businesses in DuPont's portfolio.

As I explained at our investor day in May, we've been actively studying this dichotomy for some time now and recently concluded that we should take the formal step of announcing the process of exploring alternatives. By being transparent in our thinking, will enable us to engage with participants in these industries and value chains and explore options. Two primary considerations govern our decision to explore strategic alternatives. First, we have limited ability to create new growth opportunities with these businesses by integrating our science across their markets, customers and products. Second, the attractive financial strength and cash generating capability of these businesses must be continuously weighed against their higher volatility, cyclicality, and lower growth profile as is clearly visible this year. By exploring strategic alternatives, we can determine what options will best drive future opportunities for these businesses and potentially enable our shareholders to realize higher value from these businesses.

Because of the scale of this segment and the amount of internal and external work that must go through in this analysis, we're deploying what's best to make our process public. We're evaluating a number of alternatives to generate more. We have not reached a decision yet and have work to do but we will not prolong the process. I want to emphasize that these are strong, healthy businesses and our decision on whether or not to proceed will be guided solely by what presents the greatest value creation now and in the future for our shareholders, consistent with our mission to increase the value of DuPont.

These announcements are another important step forward in the transformation of DuPont, especially in the context of our long history in these businesses. But DuPont has always embraced change. As a science company driven by innovation, we're always looking around the next corner. We have consistently demonstrated that we're committed to the disciplined execution of our strategy and we will continue to manage the business actively as we transform DuPont into a higher growth, higher value company for our shareholders.

So Carl, I'll now turn it back to you.

Carl Lukach

Okay, thanks, Ellen. John, we're ready to go to questions from our callers.

Question-and-Answer Session

Operator

Thank you (Operator Instructions) And our first question is from Don Carson from Susquehanna Financial.

Don Carson - Susquehanna Financial

Good morning, Ellen. A question on the decision to spin out TiO_2. I am wondering why not spin-off Ag into a peer play and then leave sort of a DuPont in industrial company. And then as a follow up, I know that you had about $200 million in stranded costs when you sold coatings. Are you expecting a similar proportionate amount with TiO_2 and what does that suggest about opportunities for the productivity improvement?

Ellen Kullman

Yeah. So Don, good to hear from you. First of all, there is no decision that's been made yet on the portfolio changes. We're considering strategic alternatives on performance chemicals because of the reasons that I stated in my talk earlier. It has to do with the cyclicality, the volatility and low growth. And we've gotten to a place where we've determined that the science really can't help make a difference and truly differentiate those businesses except for things like costs and productivity and areas like that. So we need to make sure what's the right future of that business is. Is it inside the company and really drive that set of businesses or is there another option that creates greater value for our shareholders.

And when you think about your provocation about an Ag pure play, it gets back to the integrated science. As we've developed biotechnology and you look at how it's transformed industry, you look at how it's transformed Ag. It's transforming animal nutrition and human nutrition. It's transforming the materials businesses. And the power of the science is fundamental. It crosses all those boundaries. We have phenomenal value chain capability that we can utilize to advance that science and be very successful down those roots, whether it's an automotive polymer, whether it's an advanced material in many different areas. And so I think power that we can generate from driving that science across those value chains creates a much stronger return for our shareholders.

Operator

Our next question is from Jeff Zekauskas from JPMorgan.

Jeff Zekauskas - JPMorgan

I was wondering about the tax basis of the Performance Chemicals segment. In rough terms, if you were to sell it and to get a reasonable price, would there be a meaningful amount of taxes you would pay or not?

Nicholas Fanandakis

Jeff, let me take that one. It’s Nick. Like Ellen said, we're very early in the process. But I can assure that things such as that that you are talking about, the tax implications, the debt, all the different variables that would come into play, we would taking those and are taking those into account in any decision that we would come forward with.

Jeffrey Zekauskas – JPMorgan

And then finally, can you remind me what the maintenance capital expenditures of the company as it's currently configured are? And how much you spent for growth CapEx of your roughly $1.8 billion?

Nicholas Fanandakis

We don't actually break that out into the pieces and the components of how much is the growth and how much is the run and maintain. We continue to invest in the maintenance of all of our plans and facilities to make sure we run to the standards within the DuPont Company.

Operator

Our next question is from Robert Koort from Goldman Sachs. Please go ahead.

Robert Koort – Goldman Sachs

I was wondering if you could help me a little bit on the Nutrition & Health segment. I think this would be part of this integrated science and it should be a higher value, more stable business, but obviously this last quarter there was a pretty massive reduction in earnings. Is that really one of the issue or how should we think about the stability of that business going forward?

Ellen Kullman

Thanks for the question. So if you look at the segment in the quarter, the primary reason for the earnings being down, half of it is a year-over-year increase in GUAR, which is a raw material and it impacted the second quarter greatly and it's flattening out for the rest of this year. So it's not going to have that large an impact over the remainder of the year. The remainder is really split into three areas. First, there has been some market anomalies in the enablers area. If you think about the cold start to the season, not many people were buying frozen desserts. And so from a volume standpoint our enablers business didn't see what we thought it should see.

Second, as we've harmonized our systems and our processes between Danisco and DuPont coming through the last stages of integration, there has been costs there and a number of those hit in the second quarter. And third, we just opened a probiotic plant in China. We're making growth investments there to catch up on the investment and to really take advantage of the opportunities that we see there. And so it is a bad quarter for the business. We can tell you exactly where it is. I’m very confident in the future there in the signs that I see, and the new products that I see coming down the pipe. And so I think that this is just -- that’s part of the process to continue to create the business in the future.

Robert Koort – Goldman Sachs

And my follow up is a comment for Carl. I think maybe this concept of having a segment commentary out separately, we can all read that ahead of time is definitely a positive side. I encourage you to do it on an ongoing basis.

Ellen Kullman

I think Nick will miss, or Carl will miss -- talking in the meeting about that. So we'll have to talk about that.

Operator

Our next question is from Vincent Andrews from Morgan Stanley.

Vincent Andrews – Morgan Stanley

If I could just ask on pioneer in particularly, obviously this year was impacted by higher seed production cost, whether it was winter production, air freight or things like that or how it's (inaudible) prices. As we look into next year and if we assume the future's curve is what it is and you get some cost relief on the raw materials side, how much of a tailwind do you think you have in '14 over '13 in the Ag segment just from lower costs? Maybe we could talk in basis points of margin or whatever would be relevant?

Ellen Kullman

Well, let's start with where we are today which would be '13 and I feel really good about the season and our 11% sales growth. I think the North American season wasn't quite as strong as we have thought coming into it because of the wet weather at the end. And we have a lot of costs come in from change outs in our area of the maturities. We had to go to shorter maturities as it got colder and some moved to story and things like that. But clearly grew corn seed volume in North America in the '13 season. Now we're coming into safrinha, summer season is safrinha season. We see more of the summer movement to soy so that means a really strong fourth quarter impact from the Brazil Sophronia season with the input cost coming down. And we do think that that's positive for the 2014 season. But it's always hard to predict the '13 season exactly what's going to come out in much less the '14. We need to see where the harvest results come in and the adoption rates of new technology and new genetics. I'm very excited about but everything we see going into 2014 as another strong year.

Vincent Andrews - Morgan Stanley

So you've no sort of idea of what it cost you in '13 in terms of the higher production cost?

Ellen Kullman

I think you can see from where the margins have gone in that segment over the last two quarters versus last year. I think you can see the impact that maybe one point of margin.

Operator

Our next question is from David Begleiter from Deutsche Bank.

David Begleiter - Deutsche Bank

Ellen, just on performance chemicals, if you were to sell or spin that business, can you discuss your ability to maintain the current dividend at the current levels.

Ellen Kullman

Yeah, I think as we look at our strategic alternatives, we're going to look at this very holistically and depending on what the alternative is it will have different impacts, different aspects of our company, whether it's debt, dividend or cash, or pension, share count, taxes. There is a lot of things we'll have to take into account. So until we know and have come to conclusion on the (inaudible), then we can get into the discussion on all that.

David Begleiter - Deutsche Bank

And just as a follow-up, Ellen. Just on (inaudible) issues, with the new capacity being sold up. Can you discuss the efforts underway or progress made at least in Q2 in getting some additional volumes into the new facility?

Nick Fanandakis

Yeah. This is Nick. I wouldn't say we had issues. We continue to look at loading up the facility. Housing is up 28%, certainly that impacts tieback increases. Military is up in the second quarter. We continue to drive productivity in that business. Our volume is actually up sequentially 6% quarter-over-quarter in that. Margins are up sequentially. If you look at the margins from the fourth quarter through the second, you'll see continued progression in the margin. So we're continuing to make great progress in that area, continuing to look at finding outlets for all the material within the whole circuit.

Operator

Our next question is from Laurence Alexander from Jefferies.

Laurence Alexander - Jefferies

Two questions about just what's changed over the last, call it five or six months. I guess first of all in terms of the currency headwind, what has changed on the positive side to offset the incremental $0.06 or $0.07 headwind that you now expect. And secondly, you previously expected performance chemicals to come in well above the overall company average (inaudible) margins across a cycle. You just mentioned it might have an impact on the dividend philosophy. Can you clarify sort of how you're thinking about the margin dilution and the impact on -- I mean what you see as balancing that off?

Ellen Kullman

So let me clarify one thing around the dividend. The question was, if we were to do some sort of transaction with the performance chemicals segment what would be impact on the dividend, and the answer is, it depends on what the transaction is. We've been very clear about our dividend policy as a company and continue to maintain that. Performance chemicals is going through a cycle and their margins are approaching a cyclical low. What we said, over the cycle we will average about 18% to 20% over this cycle. And so right now I think 15% margins, just about that, for this quarter. So you can see where that is and you saw a couple of years ago where their margin was. So that margin does go up and down. On average, we said a strong business for the company. But it's cyclical, it's volatile and has slow growth.

Operator

Your next question is from John Roberts from UBS. Please go ahead.

John Roberts - UBS

You are moving performance materials closer to the integrated strategy by putting it under Jim. But it's a little harder for me to see how the integrated science in safety and protection or electronics and communication would work. They seem more like standalone science businesses relative to the rest of the core. So I'm curious whether you see any ways to move those businesses overtime closer to the core here or they really would form something separate.

Ellen Kullman

. No, I think that there is a potential there. I think it's -- where we've seen it very clearly is in the polymers area and it's a continue. What we're seeing with enzymes is really quite fascinating in terms of its ability to really convert sugars into higher value order things like monomers which play equally well into areas in Safety and Protection as well as Electronics. So it's more expensive than performance materials, but I think performance materials is where you're going see it first. But there absolutely is tremendous opportunity there for utilizing this technology. And both Electronics and Safety and Protection have tremendous ability to incorporate differentiated signs to advance that.

Operator

Our next question is from Mike Ritzenthaler from Piper Jaffray.

Mike Ritzenthaler – Piper Jaffray

On the TIO2 strategic options, you've touched many times in the past and again today about the positive impact with matching the (inaudible) cash flows with the innovation engine. Can you help us understand why the pace of innovation would not slow in the portfolio that did not have TiO2 as part of the mix?

Ellen Kullman

Why the pace of innovation –

Mike Ritzenthaler – Piper Jaffray

Would not slow -- if you couldn't match up those, the cash flows, the positive impact of the cash flows from TiO2 to the rest of the businesses?

Ellen Kullman

So it's an interesting provocation and it's one as we look at the strategic alternatives -- we tend to look at how innovation science has really contributed to these businesses, if you take a look at our Fluoro enterprise, our industrial chemicals and TiO2. And TiO2, it's true. It's really been around manufacturing process technology. So it's enabled that business even under tremendous competitive dynamics that occur in that industry to remain its return from the investments that we bring to it. So we do generate cash from that. So we have to understand is that something you can wring sense and really operate these businesses to their markets differentially to the rest of company? Is there another option that really creates greater value for our shareholders? So I think that's part of the whole process we're going under. But I think we have realized over -- as we've been studying this for the last five or six months and working with our board on it, there is not a lot science can do to get the growth rates in those businesses up above a GDP rate. And there is nothing science that we can see do to arrest the volatility or the cyclicality of those businesses. So I think those are impacts we have to really consider on the company and how it's best to play that out in the future.

Mike Ritzenthaler – Piper Jaffray

Again it makes sense. And then as a follow-up, you mentioned three points of share gain in summer in safrinha corn in Brazil as you guys own that short relative maturity market. Can you help us understand what the share change, if there was any for soybeans in Brazil?

Ellen Kullman

I think it's early to really declare on soy, at least from the North American season. But in Latin America I think that's we've got small share there. I don't know, it's about 10% and we continue to make progress but it's off much smaller based on our corn share.

Operator

And our next question is from John McNulty from Credit Suisse.

John McNulty – Credit Suisse

When we look to the three strategic priorities that you've highlighted, it's pretty obvious why the Performance Chemical platform doesn't fit in there. But when I look at your Performance Materials segment, you've got R&D 1% to 1.5% of sales. There is some reasonable amount of volatility around that. I guess I'm curious as to why this one necessarily fits in or is this maybe phase two of some process in reviewing the businesses?

Ellen Kullman

No. Actually we've given this a lot of thought as we look at our portfolio. When you really think about our strategic priorities, extending leadership in Ag and the food value chain and strengthening and growing advanced materials and industrial biosciences and we have a leadership position from a science standpoint there. What we've seen very clearly is the application of biotechnology into the monomer area, which then drives a lot of different sciences and polymers is a natural extension. We've seen it in Sorona. Our Sorona business was the first product material. It didn't exist before that material business. And we've really seen the power of advancing and using enzymes and microbial pathway engineering to create very differentiated science that enables new growth crop.

And we just see that in the polymers area, our access to those value chains. Things that like automotive and things in the industrial area. I mean we're finding there is a tremendous interest in renewable in that segment. I mean so our polymers, [engineered] polymers business is about $4 billion today. What we really see, is over half of that can convert over to renewable in the coming years. It's there is just tremendous interest. And so the question is, how can the science really address that. And in the conversations we're having through the innovation centers with our customers in China, in Turkey, in Russia, in Brazil, in India are just -- I mean it's really come through to me, the power of that integrated science and how the marrying of those value chains with the breadth of our science can create a great future for our company.

John McNulty - Credit Suisse

Okay, great. Very clear. Thank you. And then just one quick follow-up. With regard to the performance chemicals segment when we think about your pension liability overall, is there any proportional difference between that liability and the earnings from your performance chem segment? How should we think about kind of how much of your pension might lie with those assets?

Nick Fanandakis

Yeah. This is Nick. Those again are all decisions that have to be contemplated as we continue down the path of understanding what our options are and which strategic option makes the most sense and creates the greatest shareholder value. I can assure you that all of these things are being considered but it's way too premature to be talking about anything in that level of detail.

Operator

Our next question is from P.J. Juvekar from Citi.

P.J. Juvekar - Citi

In performance chemicals, the TiO_2 business is at the top of its cycle like you mentioned. Can you talk about the timing of the sales and does this announcement indicate that maybe you think the cycle is (inaudible), as you announced price increases? Then...

Ellen Kullman

Yes. So let's talk about the cycle and just sort of talk about strategic alternatives. I'm sorry, was there another part of the question, P.J.?

P.J. Juvekar - Citi

No, no. Go ahead.

Ellen Kullman

So the cycle. It's essentially what we talked about at the Investor Day and even in our first quarter results, it's playing out just as we see. We have two consecutive quarters of year-over-year and sequential volume growth. Volumes are up 12% year-over-year and 18% sequentially and so we're seeing improvement of operating earnings sequentially. So we see it bottoming. So why? So customer inventories are returning to a more normalized level. I mean we've seen published reports and they indicate that producer inventory during a 60-65 day range and slightly above normal, right. Which would be somewhere between 50 and 60. So we see that, as we discussed, it's bottoming and then we'll see sequential improvement. So that we think that cycle is playing out as we've studied it and looked at it, as we've discussed in the past.

So on the second part is, we've haven’t made any decisions to specifically do anything with any asset. We decided to go public with the strategic alternatives that we're in the process of considering because we have to engage both externally and internally with our people on the future, and it's hard to do that with under our corporate documents or whatever. So we really needed -- we are at the point in that analysis where the engagements that we're doing and the questions that are starting to come up externally, we thought that being transparent there would be best, and that we'll keep you informed as time goes on about where those alternatives are pointing to.

Operator

Our next question is from Chris Nocella from RBC Capital Markets.

Chris Nocella - RBC Capital Markets

Just how should we think about the timing of when the strategic review could be complete? Should we think that sometime within 2013?

Ellen Kullman

Yes. We haven't pegged a timing. We are obviously very actively involved in it now with our board and we will be back to you when we just have the answers.

Chris Nocella - RBC Capital Markets

Okay. And just on the other half of the segment, the floor chemicals and polymers side. Can you help us with a better sense of where you stand in the cycle for those products as well, please?

Ellen Kullman

For polymers, their volumes were pretty good but their prices are down and some of those end segments are going through their own cycle. Floor chemicals, their volumes were down, based on the government opened up a little more R22 capability and so that impacted that business. And so I think they are not going through as significant a cycle as our TiO2 businesses. But they have, if you look for the whole segment, volumes were about flat. And that's indicative of the lower growth that emanates from that cycle. But each one, whether it's Fluoro chemicals, Fluoro polymers, industrial chemicals, TiO2, they have very specific cycles that they go through.

Operator

Next question is from Kevin McCarthy from Bank of America.

Kevin McCarthy – Bank of America Merrill Lynch

Question relates to your outlook for Ag. If we look back over the past four years or so your fourth quarter profitability has trended within a very narrow range of maybe $92 million to $117 million loss there. You're forecasting a profit at this juncture. I would have thought with the way that crop is shaping up in North America, we could have a slightly more balanced seed market and therefore North America may be a somewhat diminished sense of urgency to place orders early in 4Q. Obviously LATAM's important. I was just wondering if you could elaborate on what specifically is giving you a lot of confidence you can post a black number this year.

Ellen Kullman

So we got strong momentum both in our seed business and in our crop protection chemical business. With the increase in soy in the summer season as we're seeing it now, there’s going to be a large increase in hectares in the safrinha Brazil corn sales season. So that's going to be growth for us with our Intrasect and our new genetics that we’re putting into that marketplace. We think 2014 based on what we think it will have a strong start. And thirdly, if that lower seed input costs from 2013 seed production, as yields have normalized and lower commodity prices that are going to benefit in the quarter. And again things like Rynaxypyr and Picoxystrobin and things like that, is going to have -- looking to have a strong season in the Southern Hemisphere. So it looks like from those types of changes we're going to make a little money in the fourth quarter in our Ag segment.

Kevin McCarthy – Bank of America Merrill Lynch

And then a follow up if I may. Your overall price contribution turned slightly negative. I think that was the first drop since the fourth quarter of '09. Obviously TiO2 would have been a big part of that. But can you comment on whether or not you're seeing price pressure in other areas of the portfolio and whether it would have been positive ex-pigment?

Ellen Kullman

So performance chemicals is the big one. The other one that may have not -- you might not have noticed is the metals pricing in our electronics and communications. Silver price is down. So our price is down. That’s a direct pass through to the customers. So it doesn't have much of an earnings from that standpoint. So those two are predominantly where prices -- if you look at Ag, we had strong price progression in Ag-based on strong products there. But those are the two that are really the most impactful.

Operator

Our next question is from Mark Connelly from CLSA. Please go ahead.

Mark Connelly – CLSA

Just to ask one question, Ellen. As you think about adding two more people to the office in the CEO -- more chiefs, same number of Indians, looks like you're moving to a more centralized decision making process. Can you talk about how this is going to play out?

Ellen Kullman

So actually they're not in the offices of CEO. They are at the next level down from an execution standpoint. So they're going to each have three businesses to really drive the integrated science and execution. So I look at this very much as a divide and conquer. We've got a lot of opportunity in this company. Tom needs to focus on return on research and development and operating excellence. Mark is focused on making sure this performance chemical strategic alternative comes out in the right place. Jim is focused on Agriculture and Nutrition & Health. And we've got a lot of opportunity to continue the improvement in safety and protection which Matt is going to look at and the integration of the science across that. So I think this is a natural extension of really driving our strategy, number one. And number two, upping our game on execution which I think is a very strong point.

Operator

And our last question is from Frank Mitsch from Wells Fargo. Please go ahead.

Frank Mitsch – Wells Fargo

If you sell or spin out TiO2, the Q&A portion of your conference call is going to be rather boring, don't you think?

Ellen Kullman

Well, at least in the last couple of quarters, it would be a little shorter. But I guess tend to split the color commentary back in for Carl –

Frank Mitsch – Wells Fargo

No, no please don't, please don't. I agree with the earlier comment. Just so I understand the health of the industry right now in TiO2, you talked about double-digit volume growth year-over-year and sequentially. And in your Q3 outlook you also mentioned double-digit volume growth. I am imaging it's more year-over-year, but where do you think you're going to fall out sequentially, where are volumes there? And then what are your thoughts on pricing for TiO2 in the back half of the year?

Ellen Kullman

So as you know TiO2 has a very strong season that is in the second quarter, right. So if TiO2 is going to have a season, it is going to be in the second quarter and that's what you see. So you've seen a season, both from a sequential standpoint and from a year-over-year standpoint. If I look at the third quarter, I think the third quarter year-over-year is going to be up 10% and sequentially it's going to be 1%, 2%, up sequentially. But we're seeing it in the places where you would consider there to be real need. So in U.S. we're seeing a stronger housing environment and in China where we're seeing kind of the same thing. So that is creating what we're considering that bottoming and the stability. And from a price standpoint that's a market dynamic we don't talk quite. We'll see what happens if that goes forward. But I think that where we see the volumes I think that's given us the confidence to kind of predict what we are looking at for the second half of the year.

Frank Mitsch - Wells Fargo

Okay, great. And then on photovoltaics, you had talked in the past about the second half recovery. It looks like you are starting to see some improvement in that business. Can you talk about the pace of improvement and where the industry stands on the supply side and the destock side etcetera?

Nick Fanandakis

Yes, as you look at the PV market, the installs, we're talking about 10% sort of increase year-over-year from an installation standpoint. Then you got to figure how that backs into the material side of it. Like I said earlier, when you look at our increases of our material components on a sequential basis in that, we're seeing things start to pick up, Frank. So we're seeing some of that traction occur and we believe we'll continue to see that in quarters three and four.

Operator

Thank you. This concludes our Q&A portion of the call and I will now turn it back over to you Carl for any closing remarks.

Carl Lukach

Okay, thank you, John. I just want to thank everyone for joining us today. And the IR team stands ready to answer your follow up questions and looks forward to your calls. Thank you very much.

Operator

Thank you, ladies and gentlemen. This concludes today's call. Thank you for participating. You may all disconnect at this time.

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John Roberts - UBS

Mike Ritzenthaler – Piper Jaffray

John McNulty – Credit Suisse

P.J. Juvekar - Citi

Chris Nocella - RBC Capital Markets

Kevin McCarthy – Bank of America Merrill Lynch

Mark Connelly – CLSA

Frank Mitsch – Wells Fargo

E I Du Pont De Nemours and Co (DD) Q2 2013 Earnings Conference Call July 23, 2013 9:00 AM ET

Operator

Good morning. My name is John and I will be your conference operator today. At this time I would like to welcome everyone to the DuPont quarterly investor call. All lines have been placed on mute to prevent background noise. After the speakers' remarks there will be a question-and-answer period. (Operator Instructions) In the interest of time, management requests that you limit yourself to one question and one follow-up question. And please pick up your handset to allow optimal sound quality. If you have additional questions, you may re-enter the queue.

Thank you. It is now my pleasure to turn the floor over to your host, Carl Lukach, Vice President of Investor Relations. Carl, you may begin the conference.

Carl Lukach

Thank you. Good morning everyone and welcome. Thank you for joining us to cover DuPont's second quarter 2013 performance and our announcements this morning of important senior leadership changes and that we are exploring strategic alternatives for our performance chemicals segment. With me are Ellen Kullman, Chair and CEO; and Nick Fanandakis, Executive Vice President and CFO.

The slides for today's presentations can be found on our website along with our news releases. Please note that we also posted a new document on our website this morning containing our second quarter’s segment performance and outlook commentary and slides. We normally present this information on the call, but by posting this document on our web we can use that time to review our other announcements and take your questions.

During the course of this conference call we will make forward-looking statements. I direct you to slide two for our disclaimers. All statements that address expectations or projections about the future are forward-looking statements. Although, they reflect our current expectations, these statements are not guarantees of future performance but involve a number of risks and assumptions. We urge you to review DuPont's SEC filings for a discussion of some of the factors that could cause actual results to differ materially. We will also refer to non-GAAP measures and request that you review the reconciliations to GAAP statements provided in our earnings release and on the website.

For today's agenda, Ellen will start with opening comments then Nick will review the second quarter financial performance and near term outlook. Ellen would then provide comments about the two additional steps DuPont announced today as we transform to a high growth, higher value company. Then we will have ample time for your questions. With that introduction it's now my pleasure to turn the call over to Ellen.

Ellen Kullman

Great. Thank you, Carl, and good morning and thank you all for joining us. I am pleased to begin today by sharing highlights about how DuPont performed in the second quarter. DuPont reported $1.9 billion in segment operating earnings or $1.28 per share on revenues of $9.8 billion. The quarter came out largely as we expected three months ago except for the added impact that cold, wet weather in the U.S. and Europe had on some of our businesses. In agriculture, the second quarter marked the end to the Northern Hemisphere planting season which spans the first half of our calendar year and our Ag businesses posted industry leading results in seed and crop protection products.

While the weather caused us to incur more costs to service our customers this season and tempered our earnings growth a bit, our leading products in both of our Ag businesses performed at the top of their industries. We saw continued rapid adoption by farmers of our newest AcreMax and AQUAmax seed corn products. And we know see sales of Rynaxypyr insecticide approaching $900 million for the full year. And we are excited about what we see coming later this year in the Latin America growing season.

The second quarter also marked a turning point for our titanium dioxide business. While we incurred a $330 million or $0.27 per share year on year decline in the second quarter operating profit from peak levels last year, our business is rebounding in terms of sequential sales volumes and earnings. Our TiO_2 sales volumes in the second quarter increased 12% over last year and 18% over the first quarter. And the increase was spread across all regions. We believe the industry inventory correction that began last year is now mostly over.

Turning now to new products, in the second quarter our DuPont community of scientists and product engineers introduced 465 new products or product applications, bringing the year-to-date total to just over 1000. These new products and applications form a healthy balance of new and replacement products and continued to represent the richness and diversity of our scientific capability. Markets benefiting from our innovative new products in the second quarter include animal nutrition, aerospace and automotive, textile and paper, filaments for cosmetics and new products for photovoltaic with improved environmental sustainability. Examples include the first thermoplastic automotive jounce bumper made from a modified grade of Hytrel, Nomex XF for lightweight fire resistant containers that reduce the risk of onboard fires in air cargo shipments and Axtra bacterial phytase enzymes for superior technical performance and economic benefit in animal nutrition.

With regard to business conditions in the markets we serve, we did see while modest, some signs in the second quarter of sequential demand improvement in industrial markets. Volumes in our performance chemicals, performance materials, safety and protection and electronics and communications segments were up 8% sequentially from the first quarter and 5% when seasonally adjusted, reflecting some improvement in demand from global automotive markets, US housing, military and general industrial markets.

Regionally, our best growth this quarter occurred in developing markets of Europe and Latin America, led by our agriculture businesses and in Avian across all of our business segments. In North America, our safety and protection and performance materials in agriculture segment benefited from the recovery in US housing, low cost ethane feed stocks and a strong Ag environment. In Europe, we continue to see slow growth environment, particularly in the automotive segment. However, sales in our agriculture and industrial biosciences segments were solid and volume in developing Europe was up 10%. Across Asia, we see strong demand for our agriculture products.

In developing Asia, while sales were down 5% in the second quarter, volumes were up 2% and included the steep decline in photovoltaic volumes versus the last year. Second quarter sales in China, excluding photovoltaics increased 4% due to the strong growth in packaging and automotive demand, coupled with improving demand for titanium dioxide. While macroeconomic uncertainty continues and demand levels are far from robust, we continue to expect gradual sequential improvement in the rate of growth and industrial production for markets that demand our products.

Nick will now explain in more detail our second quarter financial performance and our outlook for the rest of the year. Nick?

Nicholas Fanandakis

Thank you, Ellen. Good morning everyone. Let’s start with the details of the quarter on Slide 3, in line with the updated guidance we provided last month, operating earnings of $1.28 per share were down $0.22 versus $1.50 in the prior year. The decline primarily reflects lower performance chemicals operating earnings of about $0.27 per share, largely due to the decline in global TiO_2 prices. Consolidated net sales of $9.8 billion decreased 1% versus the prior year. Volume increased 1% led by performance chemicals and safety and protection segments, which had volume growth of 6% and 5% respectively.

On a sequential basis, excluding agriculture and adjusting for seasonality, volumes were up 5% with increases in all regions of the world. We expect this momentum to continue as we head into the second half of the year, particularly in PV, automotive and construction markets. Local selling prices declined 1% primarily due to declining TiO_2 prices, which were partially offset by value driven pricing in our agriculture and nutrition and health segments.

Currency also had a negative 1% impact on our top line as the dollar strengthened against most currencies, particularly the Japanese Yen. Let's turn to slide four for more information regarding the company's sales by geographic region. U.S. and Canada local selling prices increased 2% primarily due to value driven pricing in our agricultural segment. The 1% volume decrease in the region was primarily due to the effect of the cool, wet weather had on our Ag sales. However, for the first half of the year, local selling prices were up 3% and volume grew 1% in U.S. and Canada where demand for our Ag products drove this growth.

In fact our Ag sales grew 11% in this region in the first half. In Asia Pacific, higher volume in our TiO_2 and Ag businesses was offset by lower volume in our electronics and communications businesses. The 6% decline in local selling prices we experienced in the region in the second quarter was primarily due to lower TiO_2 prices as well as pass-through pricing in electronics and communications based on lower metal prices. In Europe, volume growth was primarily due to higher demand for TiO_2 and Ag products. However, lower local selling prices were the result of lower TiO_2 prices which more than offset Ag pricing gains.

This quarter, Latin America was our highest growth region. Up 7% versus last year. There we saw a 12% higher volume reflecting strong Ag sales which was partially offset by 4% lower local selling prices reflecting lower TiO2 pricing. Now let's take a deeper look into the operating earnings for the second quarter. Slide five provides a segment operating earnings variance analysis. From this chart you can see clearly the large impact the performance chemicals segment had on our overall earnings compared to last year. You can also see the negative impact that the unseasonably cool, wet weather had on our nutrition and health and Ag segments.

Additionally, nutrition and health operating earnings were impacted from higher (inaudible) inventory prices, lower enablers product line volume, onetime cost associated with harmonizing systems and processes and growth investments in this sector. As you all know, the quarter largely represents the completion of the northern hemisphere planting season which spans the first half of our fiscal year. Our Ag segment had another tremendous first half with operating earnings growing about $175 million or 8%. These results reflect strong corn seed insecticide and fungicide sales in North America and Latin America. We expect this momentum to continue into the second half and for the full year we are anticipating our Ag segment to achieve double-digit earnings growth.

Our remaining businesses generally were impacted by sluggish demand in industrial markets during the second quarter on a year over year basis. However, as expected, volumes improved sequentially for many of these businesses in the second quarter versus the first.

On a seasonally adjusted basis, our electronics and communication volumes sequentially increased in the second quarter by 10% on fire PV installations in China. Safety and protection volumes sequentially grew more than 5%, benefiting from higher US demand in ballistics military protection and construction markets. Additionally, performance materials volume sequentially increased on higher demand in automotive and agricultural markets. We anticipate the demand in these markets to continue to improve as we move into the second half of this year.

Moving to slide 6, you can see the decline in segment operating earnings resulted in a $0.31 per share negative impact on our consolidated results. The $0.31 includes a negative $0.03 currency impact for the second quarter. At current exchange rates, we expect the third quarter currency impact also to be negative by about $0.02 per share and for the full year, we are now expecting a negative $0.12 to $0.14 currency impact. This is much higher than our previous outlook of negative $0.05 because the dollar has strengthened considerably during the year. As a result, we anticipate a $0.05 to $0.07 currency headwind in the second half of this year.

The two set benefit from lower corporate expenses that you see on slide 6 reflects this quarter's savings from our 2012 restructuring program. We are on plan to deliver the $300 million in savings that we targeted for 2013. Beyond our restructuring program, we continue to execute ongoing cost productivity initiatives throughout all of our businesses. We are well on our way to delivering our commitment of more than $300 million for the full year from these initiatives. In total, both of these initiatives will combine significantly -- contribute significantly to offsetting inflation and helping to fund our growth investments.

Now let's turn to the balance sheet in cash on slide 7. On a year-to-date basis, the $1.6 billion increase in the seasonal outflow versus last year was due to lower cash earnings and higher Ag working capital, partially offset by lower pension contributions. The higher Ag working capital was primarily due to the timing of customers and production grower compensation payments which were larger this year due to higher commodity prices. In the second quarter, we completed the $1 billion share repurchase program using a portion of the Performance Coatings divestiture proceeds. We are using the remainder of the Performance Coatings proceeds to strengthen our balance sheet and this is the primary reason our net debt decreased by $4.2 billion versus this time last year. This gives us the flexibility to execute against potentially compelling growth opportunities. Additionally, in April our Board declared a 5% increase to the quarterly dividend and just last month we paid our 435th consecutive quarterly dividend.

In summary, second quarter results were in line with our expectations with lower TiO2 prices being the primary costs for the earnings decrease on a year-over-year basis. These results also reflect strong Ag sales for the quarter and for the first half. Last, as we expected, volumes were up 5% sequentially on a seasonally adjusted basis with increases in all regions of the world, including improving TiO2 volumes.

Let's now look forward to the second half. Today, we reaffirmed our full year outlook of about $3.85 per share. As such, we expect operating earnings to be about $1 per share in the second half or about 60% increase over the prior year. The second half outlook includes the additional currency headwind of $0.05 to $0.07. On a seasonally adjusted basis, we expect the sequential volume growth that we saw in the second quarter to carry into the second half of the year, particularly in PV, automotive, military protection, construction and other industrial end use markets. Additionally, we anticipate volume growth in a year-over-year basis to improve, albeit often easier comp. One item that I would like to highlight for you is that we expect the second half earnings to be about 40:60 split between the third and fourth quarters. The reason for the split is largely due to the quarterly split in our Ag segment as well as the sequential improvement in demand we expect for our industrial products which I just discussed.

For the second half overall, we anticipate a smaller seasonal loss in our Ag segment with low to mid-teens sales growth offsetting the negative impact of currency and continued strategic growth investments. However, in the third quarter we anticipate a substantially larger seasonal loss as sales growth will be tempered by reduced corn hectares in Brazil summer season, higher input costs growth investments. On the flip side, we expect earnings to turn positive in the fourth quarter on strong growth in Brazil safrinha corn sales, a strong start to the 2014 North American season and lower input cost from this year's summer production.

In closing, our current market environment is a dynamic one. All of our businesses are staying close to their customers to adapt the changing demand signals and continue to serve their needs. Additionally, our businesses are taking actions to drive productivity in a variety of ways including reducing expenditures and tightly managing their cash. We are also shifting resources as new opportunities are identified. DuPont's leadership remains confident in our business plans and or ability to execute against those plans. With that let me turn it back over to Ellen.

Ellen Kullman

Great. Thank you, Nick. In summary, our second quarter results were largely as we expected with strong Ag performance offset by the cyclical decline in performance chemicals. Looking forward, with the titanium dioxide market recovering, we end anticipating a gradual improvement in demand from industrial markets combined with a strong second half in agriculture in the southern hemisphere. We expect second half operating earnings to be about 60% greater than last year.

Turning to slide eight. Let me share with you now the next steps in the transformation of the DuPont to a higher growth, higher value company. Our alignment of senior leadership responsibility and our exploration of strategic alternatives for our performance chemicals segment. Both steps are fully aligned with our strategic plan to increase the value of DuPont. You will remember that we made important portfolio enhancements in the last two years as part of our plan. These include the $7 billion acquisition of Danisco and our $5 billion sales of performance coatings. Also, we redesigned our cost structure in a way that deliver $2 billion in cumulative savings over the past four years.

On slide nine, a key component of our plan is integrated science. That is our ability to integrate and deploy our advanced scientific capability in biology, chemistry and material, in ways that create innovative solutions for customers, competitive advantage and growth for our company, and value for our shareholders. DuPont has an unmatched set of strong capabilities in foundational science. But an additional differentiator is our unique ability to work beyond the boundaries of a single discipline and find novel, innovative solutions at the intersection. Receiving nearly 1000 patents a year demonstrates my point.

While we have capable competitor in individual scientific disciplines, DuPont's breadth of science is uniquely relevant to where customer demand is heading now in many markets. Simply stated, we are advantaged like no other company to deliver value to our customers and shareholders. On slide ten, the question then becomes, where should we prioritize to deploy our integrated science strategy. We have chosen to leverage our science across three related attractive spaces. These are Ag and nutrition, bio-based industrial and advanced materials. Each of these offers up the opportunity to continue to build a high margin, higher growth company.

With our global scale, market access, broad customer base, and scientific capability, DuPont is uniquely positioned to bring a steady flow of innovative new products to these markets ahead of competition. The application development capability and market access of our advanced material businesses, along with the value-chain relationship and feed stock knowledge of our Ag and Nutrition and Health businesses, offer advantages for DuPont that no other company has. This is where we pull together the true power of our unique integrated science offering across all our businesses.

At our Investor Day on May 2nd, I outlined three strategic priorities we're pursuing at DuPont. First, to extend our leadership in the high value, science-driven segments of the agriculture to food value chain and to leverage the linkages across these segments. Second, to strengthen and grow our leading position as a provider of differentiated, high value, advanced materials through science based solutions. And third to build on our leading position in industrial biotechnology where we can create transformational bio-based businesses in areas like biofuel and biomaterials. Disciplined execution against these three priorities will transform DuPont to a higher growth, higher value company as we address the world population driven challenges of food, fuel and protection of people and the environment.

The two steps we announced this morning emanate from these priorities. The realignment of senior management responsibilities will accelerate deployment of our integrated science strategy across a wide range of materials markets today. We're elevating Jim Collins who is currently President of our Industrial Biosciences business, by adding to his current Industrial Biosciences responsibilities, our performance polymers business and our packaging and industrial polymers business. Under Jim's leadership, Industrial Bioscience has already forged important and expanding scientific and operational synergies with our Agriculture and Nutrition & Health businesses. Now, I'm challenging Jim to accelerate the integration of our leading industrial biopolymers technology across all of our advanced materials businesses. This will be a highly visible integrated science at work.

For example in polymers, our renewable polymer portfolio delivers about $100 million in revenue today. And that number will continue to grow steadily in the future. Of our $4 billion portfolio of engineered polymers, half of that could be renewably sourced in coming years. Integrating renewable technology technologies into our existing polymer products and market positions presents a tremendous competitively advantaged growth opportunity for us and one that we want to invest in and accelerate. It also exemplifies the potential of the new DuPont to deliver what our markets are increasingly demanding.

Next, we're pleased to have Matt Trerotola rejoin DuPont as Senior Vice President with responsibility for our Protection Technologies, building innovation and sustainable solutions businesses. Matt will accelerate our growth plans for some of DuPont's strongest branded products like Tyvek, Nomex and Kevlar and will be accelerating the introduction of new technologies and looking for ways to leverage our science capabilities across other DuPont businesses. Matt's priorities will be to accelerate our growth plans and intensify our focus and discipline in a way that delivers result that meet or exceed the revenue growth and margin target we shared with you eight weeks ago at Investor Day.

Let me share with you now insight into our decision to explore strategic alternatives for our Performance Chemical segment. This segment includes DuPont's titanium technologies and DuPont chemicals and Fluoroproducts. 2012 revenues from the segment were $7.2 billion and [Ti02] was $1.8 billion. These businesses have strong market positions, differentiated products and technologies, attractive global customer basis and they generate high cash flow. They are however the most cyclical and sometimes volatile businesses in DuPont's portfolio.

As I explained at our investor day in May, we've been actively studying this dichotomy for some time now and recently concluded that we should take the formal step of announcing the process of exploring alternatives. By being transparent in our thinking, will enable us to engage with participants in these industries and value chains and explore options. Two primary considerations govern our decision to explore strategic alternatives. First, we have limited ability to create new growth opportunities with these businesses by integrating our science across their markets, customers and products. Second, the attractive financial strength and cash generating capability of these businesses must be continuously weighed against their higher volatility, cyclicality, and lower growth profile as is clearly visible this year. By exploring strategic alternatives, we can determine what options will best drive future opportunities for these businesses and potentially enable our shareholders to realize higher value from these businesses.

Because of the scale of this segment and the amount of internal and external work that must go through in this analysis, we're deploying what's best to make our process public. We're evaluating a number of alternatives to generate more. We have not reached a decision yet and have work to do but we will not prolong the process. I want to emphasize that these are strong, healthy businesses and our decision on whether or not to proceed will be guided solely by what presents the greatest value creation now and in the future for our shareholders, consistent with our mission to increase the value of DuPont.

These announcements are another important step forward in the transformation of DuPont, especially in the context of our long history in these businesses. But DuPont has always embraced change. As a science company driven by innovation, we're always looking around the next corner. We have consistently demonstrated that we're committed to the disciplined execution of our strategy and we will continue to manage the business actively as we transform DuPont into a higher growth, higher value company for our shareholders.

So Carl, I'll now turn it back to you.

Carl Lukach

Okay, thanks, Ellen. John, we're ready to go to questions from our callers.

Question-and-Answer Session

Operator

Thank you (Operator Instructions) And our first question is from Don Carson from Susquehanna Financial.

Don Carson - Susquehanna Financial

Good morning, Ellen. A question on the decision to spin out TiO2. I am wondering why not spin-off Ag into a peer play and then leave sort of a DuPont in industrial company. And then as a follow up, I know that you had about $200 million in stranded costs when you sold coatings. Are you expecting a similar proportionate amount with TiO2 and what does that suggest about opportunities for the productivity improvement?

Ellen Kullman

Yeah. So Don, good to hear from you. First of all, there is no decision that's been made yet on the portfolio changes. We're considering strategic alternatives on performance chemicals because of the reasons that I stated in my talk earlier. It has to do with the cyclicality, the volatility and low growth. And we've gotten to a place where we've determined that the science really can't help make a difference and truly differentiate those businesses except for things like costs and productivity and areas like that. So we need to make sure what's the right future of that business is. Is it inside the company and really drive that set of businesses or is there another option that creates greater value for our shareholders.

And when you think about your provocation about an Ag pure play, it gets back to the integrated science. As we've developed biotechnology and you look at how it's transformed industry, you look at how it's transformed Ag. It's transforming animal nutrition and human nutrition. It's transforming the materials businesses. And the power of the science is fundamental. It crosses all those boundaries. We have phenomenal value chain capability that we can utilize to advance that science and be very successful down those roots, whether it's an automotive polymer, whether it's an advanced material in many different areas. And so I think power that we can generate from driving that science across those value chains creates a much stronger return for our shareholders.

Operator

Our next question is from Jeff Zekauskas from JPMorgan.

Jeff Zekauskas - JPMorgan

I was wondering about the tax basis of the Performance Chemicals segment. In rough terms, if you were to sell it and to get a reasonable price, would there be a meaningful amount of taxes you would pay or not?

Nicholas Fanandakis

Jeff, let me take that one. It's Nick. Like Ellen said, we're very early in the process. But I can assure that things such as that that you are talking about, the tax implications, the debt, all the different variables that would come into play, we would taking those and are taking those into account in any decision that we would come forward with.

Jeffrey Zekauskas - JPMorgan

And then finally, can you remind me what the maintenance capital expenditures of the company as it's currently configured are? And how much you spent for growth CapEx of your roughly $1.8 billion?

Nicholas Fanandakis

We don't actually break that out into the pieces and the components of how much is the growth and how much is the run and maintain. We continue to invest in the maintenance of all of our plans and facilities to make sure we run to the standards within the DuPont Company.

Operator

Our next question is from Robert Koort from Goldman Sachs. Please go ahead.

Robert Koort - Goldman Sachs

I was wondering if you could help me a little bit on the Nutrition & Health segment. I think this would be part of this integrated science and it should be a higher value, more stable business, but obviously this last quarter there was a pretty massive reduction in earnings. Is that really one of the issue or how should we think about the stability of that business going forward?

Ellen Kullman

Thanks for the question. So if you look at the segment in the quarter, the primary reason for the earnings being down, half of it is a year-over-year increase in GUAR, which is a raw material and it impacted the second quarter greatly and it's flattening out for the rest of this year. So it's not going to have that large an impact over the remainder of the year. The remainder is really split into three areas. First, there has been some market anomalies in the enablers area. If you think about the cold start to the season, not many people were buying frozen desserts. And so from a volume standpoint our enablers business didn't see what we thought it should see.

Second, as we've harmonized our systems and our processes between Danisco and DuPont coming through the last stages of integration, there has been costs there and a number of those hit in the second quarter. And third, we just opened a probiotic plant in China. We're making growth investments there to catch up on the investment and to really take advantage of the opportunities that we see there. And so it is a bad quarter for the business. We can tell you exactly where it is. I'm very confident in the future there in the signs that I see, and the new products that I see coming down the pipe. And so I think that this is just -- that's part of the process to continue to create the business in the future.

Robert Koort - Goldman Sachs

And my follow up is a comment for Carl. I think maybe this concept of having a segment commentary out separately, we can all read that ahead of time is definitely a positive side. I encourage you to do it on an ongoing basis.

Ellen Kullman

I think Nick will miss, or Carl will miss -- talking in the meeting about that. So we'll have to talk about that.

Operator

Our next question is from Vincent Andrews from Morgan Stanley.

Vincent Andrews - Morgan Stanley

If I could just ask on pioneer in particularly, obviously this year was impacted by higher seed production cost, whether it was winter production, air freight or things like that or how it's (inaudible) prices. As we look into next year and if we assume the future's curve is what it is and you get some cost relief on the raw materials side, how much of a tailwind do you think you have in '14 over '13 in the Ag segment just from lower costs? Maybe we could talk in basis points of margin or whatever would be relevant?

Ellen Kullman

Well, let's start with where we are today which would be '13 and I feel really good about the season and our 11% sales growth. I think the North American season wasn't quite as strong as we have thought coming into it because of the wet weather at the end. And we have a lot of costs come in from change outs in our area of the maturities. We had to go to shorter maturities as it got colder and some moved to story and things like that. But clearly grew corn seed volume in North America in the '13 season. Now we're coming into safrinha, summer season is safrinha season. We see more of the summer movement to soy so that means a really strong fourth quarter impact from the Brazil Sophronia season with the input cost coming down. And we do think that that's positive for the 2014 season. But it's always hard to predict the '13 season exactly what's going to come out in much less the '14. We need to see where the harvest results come in and the adoption rates of new technology and new genetics. I'm very excited about but everything we see going into 2014 as another strong year.

Vincent Andrews - Morgan Stanley

So you've no sort of idea of what it cost you in '13 in terms of the higher production cost?

Ellen Kullman

I think you can see from where the margins have gone in that segment over the last two quarters versus last year. I think you can see the impact that maybe one point of margin.

Operator

Our next question is from David Begleiter from Deutsche Bank.

David Begleiter - Deutsche Bank

Ellen, just on performance chemicals, if you were to sell or spin that business, can you discuss your ability to maintain the current dividend at the current levels.

Ellen Kullman

Yeah, I think as we look at our strategic alternatives, we're going to look at this very holistically and depending on what the alternative is it will have different impacts, different aspects of our company, whether it's debt, dividend or cash, or pension, share count, taxes. There is a lot of things we'll have to take into account. So until we know and have come to conclusion on the (inaudible), then we can get into the discussion on all that.

David Begleiter - Deutsche Bank

And just as a follow-up, Ellen. Just on (inaudible) issues, with the new capacity being sold up. Can you discuss the efforts underway or progress made at least in Q2 in getting some additional volumes into the new facility?

Nick Fanandakis

Yeah. This is Nick. I wouldn't say we had issues. We continue to look at loading up the facility. Housing is up 28%, certainly that impacts tieback increases. Military is up in the second quarter. We continue to drive productivity in that business. Our volume is actually up sequentially 6% quarter-over-quarter in that. Margins are up sequentially. If you look at the margins from the fourth quarter through the second, you'll see continued progression in the margin. So we're continuing to make great progress in that area, continuing to look at finding outlets for all the material within the whole circuit.

Operator

Our next question is from Laurence Alexander from Jefferies.

Laurence Alexander - Jefferies

Two questions about just what's changed over the last, call it five or six months. I guess first of all in terms of the currency headwind, what has changed on the positive side to offset the incremental $0.06 or $0.07 headwind that you now expect. And secondly, you previously expected performance chemicals to come in well above the overall company average (inaudible) margins across a cycle. You just mentioned it might have an impact on the dividend philosophy. Can you clarify sort of how you're thinking about the margin dilution and the impact on -- I mean what you see as balancing that off?

Ellen Kullman

So let me clarify one thing around the dividend. The question was, if we were to do some sort of transaction with the performance chemicals segment what would be impact on the dividend, and the answer is, it depends on what the transaction is. We've been very clear about our dividend policy as a company and continue to maintain that. Performance chemicals is going through a cycle and their margins are approaching a cyclical low. What we said, over the cycle we will average about 18% to 20% over this cycle. And so right now I think 15% margins, just about that, for this quarter. So you can see where that is and you saw a couple of years ago where their margin was. So that margin does go up and down. On average, we said a strong business for the company. But it's cyclical, it's volatile and has slow growth.

Operator

Your next question is from John Roberts from UBS. Please go ahead.

John Roberts - UBS

You are moving performance materials closer to the integrated strategy by putting it under Jim. But it's a little harder for me to see how the integrated science in safety and protection or electronics and communication would work. They seem more like standalone science businesses relative to the rest of the core. So I'm curious whether you see any ways to move those businesses overtime closer to the core here or they really would form something separate.

Ellen Kullman

. No, I think that there is a potential there. I think it's -- where we've seen it very clearly is in the polymers area and it's a continue. What we're seeing with enzymes is really quite fascinating in terms of its ability to really convert sugars into higher value order things like monomers which play equally well into areas in Safety and Protection as well as Electronics. So it's more expensive than performance materials, but I think performance materials is where you're going see it first. But there absolutely is tremendous opportunity there for utilizing this technology. And both Electronics and Safety and Protection have tremendous ability to incorporate differentiated signs to advance that.

Operator

Our next question is from Mike Ritzenthaler from Piper Jaffray.

Mike Ritzenthaler - Piper Jaffray

On the TIO2 strategic options, you've touched many times in the past and again today about the positive impact with matching the (inaudible) cash flows with the innovation engine. Can you help us understand why the pace of innovation would not slow in the portfolio that did not have TiO2 as part of the mix?

Ellen Kullman

Why the pace of innovation –

Mike Ritzenthaler - Piper Jaffray

Would not slow -- if you couldn't match up those, the cash flows, the positive impact of the cash flows from TiO2 to the rest of the businesses?

Ellen Kullman

So it’s an interesting provocation and it's one as we look at the strategic alternatives -- we tend to look at how innovation science has really contributed to these businesses, if you take a look at our Fluoro enterprise, our industrial chemicals and TiO2. And TiO2, it's true. It’s really been around manufacturing process technology. So it's enabled that business even under tremendous competitive dynamics that occur in that industry to remain its return from the investments that we bring to it. So we do generate cash from that. So we have to understand is that something you can wring sense and really operate these businesses to their markets differentially to the rest of company? Is there another option that really creates greater value for our shareholders? So I think that's part of the whole process we're going under. But I think we have realized over -- as we've been studying this for the last five or six months and working with our board on it, there is not a lot science can do to get the growth rates in those businesses up above a GDP rate. And there is nothing science that we can see do to arrest the volatility or the cyclicality of those businesses. So I think those are impacts we have to really consider on the company and how it's best to play that out in the future.

Mike Ritzenthaler - Piper Jaffray

Again it makes sense. And then as a follow-up, you mentioned three points of share gain in summer in safrinha corn in Brazil as you guys own that short relative maturity market. Can you help us understand what the share change, if there was any for soybeans in Brazil?

Ellen Kullman

I think it's early to really declare on soy, at least from the North American season. But in Latin America I think that's we've got small share there. I don't know, it's about 10% and we continue to make progress but it’s off much smaller based on our corn share.

Operator

And our next question is from John McNulty from Credit Suisse.

John McNulty - Credit Suisse

When we look to the three strategic priorities that you've highlighted, it’s pretty obvious why the Performance Chemical platform doesn't fit in there. But when I look at your Performance Materials segment, you've got R&D 1% to 1.5% of sales. There is some reasonable amount of volatility around that. I guess I'm curious as to why this one necessarily fits in or is this maybe phase two of some process in reviewing the businesses?

Ellen Kullman

No. Actually we've given this a lot of thought as we look at our portfolio. When you really think about our strategic priorities, extending leadership in Ag and the food value chain and strengthening and growing advanced materials and industrial biosciences and we have a leadership position from a science standpoint there. What we've seen very clearly is the application of biotechnology into the monomer area, which then drives a lot of different sciences and polymers is a natural extension. We've seen it in Sorona. Our Sorona business was the first product material. It didn't exist before that material business. And we've really seen the power of advancing and using enzymes and microbial pathway engineering to create very differentiated science that enables new growth crop.

And we just see that in the polymers area, our access to those value chains. Things that like automotive and things in the industrial area. I mean we're finding there is a tremendous interest in renewable in that segment. I mean so our polymers, [engineered] polymers business is about $4 billion today. What we really see, is over half of that can convert over to renewable in the coming years. It's there is just tremendous interest. And so the question is, how can the science really address that. And in the conversations we're having through the innovation centers with our customers in China, in Turkey, in Russia, in Brazil, in India are just -- I mean it's really come through to me, the power of that integrated science and how the marrying of those value chains with the breadth of our science can create a great future for our company.

John McNulty - Credit Suisse

Okay, great. Very clear. Thank you. And then just one quick follow-up. With regard to the performance chemicals segment when we think about your pension liability overall, is there any proportional difference between that liability and the earnings from your performance chem segment? How should we think about kind of how much of your pension might lie with those assets?

Nick Fanandakis

Yeah. This is Nick. Those again are all decisions that have to be contemplated as we continue down the path of understanding what our options are and which strategic option makes the most sense and creates the greatest shareholder value. I can assure you that all of these things are being considered but it's way too premature to be talking about anything in that level of detail.

Operator

Our next question is from P.J. Juvekar from Citi.

P.J. Juvekar - Citi

In performance chemicals, the TiO_2 business is at the top of its cycle like you mentioned. Can you talk about the timing of the sales and does this announcement indicate that maybe you think the cycle is (inaudible), as you announced price increases? Then...

Ellen Kullman

Yes. So let's talk about the cycle and just sort of talk about strategic alternatives. I'm sorry, was there another part of the question, P.J.?

P.J. Juvekar - Citi

No, no. Go ahead.

Ellen Kullman

So the cycle. It's essentially what we talked about at the Investor Day and even in our first quarter results, it's playing out just as we see. We have two consecutive quarters of year-over-year and sequential volume growth. Volumes are up 12% year-over-year and 18% sequentially and so we're seeing improvement of operating earnings sequentially. So we see it bottoming. So why? So customer inventories are returning to a more normalized level. I mean we've seen published reports and they indicate that producer inventory during a 60-65 day range and slightly above normal, right.

Which would be somewhere between 50 and 60. So we see that, as we discussed, it's bottoming and then we'll see sequential improvement. So that we think that cycle is playing out as we've studied it and looked at it, as we've discussed in the past.

So on the second part is, we've haven't made any decisions to specifically do anything with any asset. We decided to go public with the strategic alternatives that we're in the process of considering because we have to engage both externally and internally with our people on the future, and it's hard to do that with under our corporate documents or whatever. So we really needed -- we are at the point in that analysis where the engagements that we're doing and the questions that are starting to come up externally, we thought that being transparent there would be best, and that we'll keep you informed as time goes on about where those alternatives are pointing to.

Operator

Our next question is from Chris Nocella from RBC Capital Markets.

Chris Nocella - RBC Capital Markets

Just how should we think about the timing of when the strategic review could be complete? Should we think that sometime within 2013?

Ellen Kullman

Yes. We haven't pegged a timing. We are obviously very actively involved in it now with our board and we will be back to you when we just have the answers.

Chris Nocella - RBC Capital Markets

Okay. And just on the other half of the segment, the floor chemicals and polymers side. Can you help us with a better sense of where you stand in the cycle for those products as well, please?

Ellen Kullman

For polymers, their volumes were pretty good but their prices are down and some of those end segments are going through their own cycle. Floor chemicals, their volumes were down, based on the government opened up a little more R22 capability and so that impacted that business. And so I think they are not going through as significant a cycle as our TiO2 businesses. But they have, if you look for the whole segment, volumes were about flat. And that's indicative of the lower growth that emanates from that cycle. But each one, whether it's Fluoro chemicals, Fluoro polymers, industrial chemicals, TiO2, they have very specific cycles that they go through.

Operator

Next question is from Kevin McCarthy from Bank of America.

Kevin McCarthy - Bank of America Merrill Lynch

Question relates to your outlook for Ag. If we look back over the past four years or so your fourth quarter profitability has trended within a very narrow range of maybe $92 million to $117 million loss there. You're forecasting a profit at this juncture. I would have thought with the way that crop is shaping up in North America, we could have a slightly more balanced seed market and therefore North America may be a somewhat diminished sense of urgency to place orders early in 4Q. Obviously LATAM's important. I was just wondering if you could elaborate on what specifically is giving you a lot of confidence you can post a black number this year.

Ellen Kullman

So we got strong momentum both in our seed business and in our crop protection chemical business. With the increase in soy in the summer season as we're seeing it now, there's going to be a large increase in hectares in the safrinha Brazil corn sales season. So that's going to be growth for us with our Intrasect and our new genetics that we're putting into that marketplace. We think 2014 based on what we think it will have a strong start. And thirdly, if that lower seed input costs from 2013 seed production, as yields have normalized and lower commodity prices that are going to benefit in the quarter. And again things like Rynaxypyr and Picoxystrobin and things like that, is going to have -- looking to have a strong season in the Southern Hemisphere. So it looks like from those types of changes we're going to make a little money in the fourth quarter in our Ag segment.

Kevin McCarthy - Bank of America Merrill Lynch

And then a follow up if I may. Your overall price contribution turned slightly negative. I think that was the first drop since the fourth quarter of '09. Obviously TiO2 would have been a big part of that. But can you comment on whether or not you're seeing price pressure in other areas of the portfolio and whether it would have been positive ex-pigment?

Ellen Kullman

So performance chemicals is the big one. The other one that may have not -- you might not have noticed is the metals pricing in our electronics and communications. Silver price is down. So our price is down. That's a direct pass through to the customers. So it doesn't have much of an earnings from that standpoint. So those two are predominantly where prices -- if you look at Ag, we had strong price progression in Ag-based on strong products there. But those are the two that are really the most impactful.

Operator

Our next question is from Mark Connelly from CLSA. Please go ahead.

Mark Connelly - CLSA

Just to ask one question, Ellen. As you think about adding two more people to the office in the CEO -- more chiefs, same number of Indians, looks like you're moving to a more centralized decision making process. Can you talk about how this is going to play out?

Ellen Kullman

So actually they're not in the offices of CEO. They are at the next level down from an execution standpoint. So they're going to each have three businesses to really drive the integrated science and execution. So I look at this very much as a divide and conquer. We've got a lot of opportunity in this company. Tom needs to focus on return on research and development and operating excellence. Mark is focused on making sure this performance chemical strategic alternative comes out in the right place. Jim is focused on Agriculture and Nutrition & Health. And we've got a lot of opportunity to continue the improvement in safety and protection which Matt is going to look at and the integration of the science across that. So I think this is a natural extension of really driving our strategy, number one. And number two, upping our game on execution which I think is a very strong point.

Operator

And our last question is from Frank Mitsch from Wells Fargo. Please go ahead.

Frank Mitsch - Wells Fargo

If you sell or spin out TiO2, the Q&A portion of your conference call is going to be rather boring, don't you think?

Ellen Kullman

Well, at least in the last couple of quarters, it would be a little shorter. But I guess tend to split the color commentary back in for Carl –

Frank Mitsch - Wells Fargo

No, no please don't, please don't. I agree with the earlier comment. Just so I understand the health of the industry right now in TiO2, you talked about double-digit volume growth year-over-year and sequentially. And in your Q3 outlook you also mentioned double-digit volume growth. I am imaging it's more year-over-year, but where do you think you're going to fall out sequentially, where are volumes there? And then what are your thoughts on pricing for TiO2 in the back half of the year?

Ellen Kullman

So as you know TiO2 has a very strong season that is in the second quarter, right. So if TiO2 is going to have a season, it is going to be in the second quarter and that's what you see. So you've seen a season, both from a sequential standpoint and from a year-over-year standpoint. If I look at the third quarter, I think the third quarter year-over-year is going to be up 10% and sequentially it's going to be 1%, 2%, up sequentially. But we're seeing it in the places where you would consider there to be real need. So in U.S. we're seeing a stronger housing environment and in China where we're seeing kind of the same thing. So that is creating what we're considering that bottoming and the stability. And from a price standpoint that's a market dynamic we don't talk quite. We'll see what happens if that goes forward. But I think that where we see the volumes I think that's given us the confidence to kind of predict what we are looking at for the second half of the year.

Frank Mitsch - Wells Fargo

Okay, great. And then on photovoltaics, you had talked in the past about the second half recovery. It looks like you are starting to see some improvement in that business. Can you talk about the pace of improvement and where the industry stands on the supply side and the destock side etcetera?

Nick Fanandakis

Yes, as you look at the PV market, the installs, we're talking about 10% sort of increase year-over-year from an installation standpoint. Then you got to figure how that backs into the material side of it. Like I said earlier, when you look at our increases of our material components on a sequential basis in that, we're seeing things start to pick up, Frank. So we're seeing some of that traction occur and we believe we'll continue to see that in quarters three and four.

Operator

Thank you. This concludes our Q&A portion of the call and I will now turn it back over to you Carl for any closing remarks.

Carl Lukach

Okay, thank you, John. I just want to thank everyone for joining us today. And the IR team stands ready to answer your follow up questions and looks forward to your calls. Thank you very much.

Operator

Thank you, ladies and gentlemen. This concludes today's call. Thank you for participating. You may all disconnect at this time.

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