

COMPANIES

DuPont takes aim at fast growing, higher margin, tough science

CHEMICALS

News analysis

Chief shifts strategy to meet the needs of the emerging global middle class, writes **Ed Crooks**

“Science is tough”, says Ellen Kullman, chief executive of DuPont.

She is referring to the company’s development of cellulosic ethanol, an advanced fuel made from corn waste that, it is hoped, will avoid the problems with traditional biofuels that compete with food supplies.

Progress in bringing cellulosic ethanol to market has been consistently disappointing, although DuPont now hopes to have its first commercial plant in production in the second half of next year.

But being able to manage the tough science is what Ms Kullman sees as being to the company’s competitive advantage.

Over the past three years, she has been attempting to remake DuPont as what she calls a “science-based” company that can meet the needs of “the growing global middle class”: consumers in emerging economies who have rising demand for food, energy and security.

The repositioning has included the \$6.4bn acquisition of Danisco, the Danish enzyme technology company, the \$4.9bn sale of its business

making paints for cars and other industrial uses, which was completed earlier this year, and most recently the announcement of the planned spin-off of its performance chemicals operations, which include paint pigments, refrigerants and Teflon.

The deals mean DuPont, the largest US chemicals company by market capitalisation, will have shed businesses that generated more than a third of its pre-tax profits in 2011. It has also raised the share of its revenues coming from agriculture, which the company sees as its fastest-growing division, from 24 per cent in 2011 to 37 per cent after the separation of the pigments business.

Speaking to the Financial Times in New York, Ms Kullman said the strategy had been to shift to higher-margin and higher-growth businesses where “science makes a difference”, focusing on more innovative and complex products such as Rynaxypyr, an advanced insecticide, and Solamet, a paste that increases the productivity of solar panels.

The proportion of sales generated in emerging economies has also risen from 25 per cent in 2008 to 32 per cent last year, and is expected to rise further.

“We think that portfolio can deliver the 7 per cent top line growth,

12 per cent bottom line growth,” Ms Kullman says, referring to her main targets.

DuPont spends about 6 per cent of its sales on research and development, and more in absolute terms than either Dow Chemical, the second-largest US chemicals company, or Monsanto, the agricultural products group. It also sustained its R&D spending through the financial crisis, which Ms Kullman says “really helped us” as the world economy recovered. New products developed within the past four years provided a record 29 per cent of sales last year.

It is a strategy that appears to have paid off. Over the past year, DuPont’s shares are up 42 per cent, compared with a 28 per cent rise in the S&P 500, and they have outpaced both Dow and Monsanto.

This week DuPont’s restructuring was also paid the most sincere form of flattery by Dow, which announced its own plan to sell or spin-off some of its less advanced, lower-margin businesses.

While results so far are encouraging, however, the strategy also has its drawbacks.

Ms Kullman rejects suggestions that the pace of change at DuPont has been a result of pressure from shareholders, including activist investor Nelson Peltz, whose Trian

fund revealed an interest in DuPont in July and took a 0.6 per cent stake.

Indeed, she points out, some investors were sceptical about the decision to spin off the pigments business. Although cyclical and volatile, the division generates “a lot of cash”, Ms Kullman says.

The focus on emerging economies could also be questioned, given how many have slowed in recent years.

However, Ms Kullman says that while there is still “uncertainty and hesitancy” in some markets, such as India, there are many areas that are still very strong, including agriculture in Brazil, and great opportunities in other Asian economies such as Malaysia, Indonesia and Thailand.

China, she adds, slowed last year but is now strengthening, with good growth in markets such as the car industry and a pick-up in others including railway infrastructure and agriculture.

While DuPont will continue to make smaller deals, Ms Kullman says, the large-scale reshaping of its business portfolio appears to be over. It is now time for her to be judged, she says, on whether the company delivers on the sales and profit goals that she has set.

