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Corteva, Inc. (CTVA)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Please stand by. We are about to begin. Good day and welcome to the Corteva Fourth Quarter 2021 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Jeffrey Rudolph, Vice President of Investor Relations. Please go ahead, sir.

[audio gap] 00:00:22-00:01:02

Jeffrey Rudolph
Vice President-Investor Relations, Corteva, Inc.

...current expectations and assumptions that are subject to various risks and uncertainties. Our actual results could materially differ from these statements due to these risks and uncertainties, including but not limited to, those discussed on this call and the Risk Factor section of our reports filed with the SEC. We do not undertake any duty to update any forward-looking statement. Please note, in today's presentation, we'll be making references to certain non-GAAP financial measures. Reconciliations of the non-GAAP measures can be found in our earnings press release and related schedules, along with our supplemental financial summary slide deck available on our Investor Relations website.

It is now my pleasure to turn the call over to Chuck.

Charles V. Magro
Chief Executive Officer & Director, Corteva, Inc.

Thanks, Jeff. Good morning, everyone, and thank you for joining us on the call and webcast today. Corteva executed well in 2021 as ag fundamentals drove strong customer demand. For the full year, the company delivered double digit sales and earnings growth, meaningful margin expansion sales and earnings growth, meaningful margin expansion and improved free cash flow. This included impressive performance out of Latin America, where the team delivered 27% organic growth on double-digit volume and price gains.

In addition, we continue to advance our technology pipeline, where Enlist E3 soybeans reach 35% market penetration in the US and new product sales in Crop Protection reached over $1.4 billion in total, an increase of more than 40% over the prior year. Our capital deployment, we returned more than $1.3 billion to shareholders via dividends and share repurchases for the year.

This past year was certainly not without its challenges, including a dynamic operating environment that impacted most global industries and manifested as supply chain disruptions, raw material and labor shortages and cost inflation. At the same time, the agricultural industry experienced significant demand for grain and oilseeds that easily outpaced supply, supporting crop prices and farmer income levels. Again, our teams executed very well in this environment.

Turning to the outlook, we entered 2022 from a position of strength and look to carry forward our execution with best-in-class technologies to deliver value for growers and Corteva. This is overlaid against a market backdrop where solid ag fundamentals will drive customer demand and challenges from supply chain disruptions and inflation will persist. As a result, we expect to deliver 8% sales growth and between $2.8 billion and $3 billion in operating EBITDA for the year.

Our priorities for 2022 are straightforward. We are going to focus on what we can control and execute on a balanced plan that is expected to deliver both growth and margin expansion. This includes continuing the penetration of new and differentiated products globally, capturing price aligned with the value of our products created for our customers, and delivering on cost reduction initiatives.

In order to achieve our full performance potential, we have begun a fresh look at various ways to unlock value at a faster pace, including our global product portfolio and operational footprint. I look forward to sharing more of these reviews as we progress this work.

As I've shared with many of you already, I am very pleased with Corteva's balance sheet and cash flow potential. We have the financial strength to execute on a disciplined capital allocation strategy, and we'll focus on funding high margin growth opportunities and returning capital to shareholders.

Now let's go to slide 5, where I will provide a bit more detail on the market outlook and some of our assumptions for 2022. Similar to 2021, agricultural demand remains solid as economies around the globe continue to recover from COVID-related shutdowns. This is expected to drive record demand for grains and oilseeds in 2022, which we believe will keep commodity prices at the elevated levels we are seeing in the market today.

Over the medium to long term, we see constructive fundamentals continuing as possible new demand to support renewable fuels, such as bio-based diesel will likely support healthy agricultural commodity price levels. Production will be vital in 2022 to balance supply and demand. For the US, planted area is expected to be 90 million acres for both corn and soybeans. Given the current relative economics of commodity prices, our assumption reflects some shift from corn into soybeans as fertilizer prices remain high and some growers may be inclined to rotate into beans. This provides further support for systems like Enlist, where customer demand and industry-wide penetration remains strong. And we anticipate it will grow to at least 40% of total US soybean acres in 2022.

Current weather conditions in Latin America remain something we continue to monitor given the potential for risks around production and grower planting decisions. That said, Brazil continues to be a very attractive market for growth and Corteva has an increasing market position given our portfolio and farmer relationships.

Planted area in Brazil for the 2022-2023 season is expected to increase mid-single digits and growers will remain focused on best-in-class technology in both Seed and Crop Protection to drive yields and maximize profit in this market.

Growers balance sheets and income levels are healthy, and we believe that customers will look to prioritize technology for 2022 to maximize return even with higher input costs across their operations. And lastly, on inflation, we do expect raw material and labor cost to continue to increase in 2022. However, we are confident that our global pricing execution will keep pace and more than offset inflation for this year.

And with that, let me turn it over to Dave to provide details on our full year 2021 performance and our guidance for 2022.

David John Anderson

Chief Financial Officer & Director, Corteva, Inc.

Thanks, Chuck, and welcome, everyone, to the call. Let's start on slide 6, which provides the financial summary for the fourth quarter and the full year. We ended the year with another solid quarter of continued growth. Compared to prior year, organic sales in the quarter increased by 9% with gains in both segments. Global pricing was up 8% by continued focus on our price for value strategy, with double-digit pricing gains in Seed, led by LatinAmerica. We delivered more than $260 million of operating EBITDA in the fourth quarter, an 11% increase from the same period last year. For the full year 2021, organic sales were up 9% to $15.5 billion. Crop Protection growth was led by continued demand for new products, which saw an increase of more than $450 million year-over-year. Seed sales improved on strong pricing execution, particularly in corn, which was up 5% globally, coupled with increased planted area in the US and strong demand for corn in Latin America. So our operating EBITDA of $2.58 billion was up 23% over 2020.

Pricing and productivity more than offset cost headwinds, driving almost 180 basis points of margin improvement. This improvement is a result of focused execution by the team while managing through challenging supply chain dynamics and also continued cost inflation.

Let's go now to slide 7 where you can see the strong top line results across every region. In North America, organic sales were up 4% for the year. Seed sales benefited from increased planted area for both corn and soybeans, as well as the continued industrywide penetration of Enlist E3 soybeans, which represented about 35% of the US soybean market in 2021.

We finished the year with corn price up 2% in North America, while soybean price was down 2%, driven by competitive pressure in the market. North America Crop Protection delivered organic sales growth of 6% and continued demand for new technologies, including Enlist herbicide. With herbicides and fungicides, we finished the year with double-digit growth in the region compared to prior year. Crop Protection prices were up 6% in response to rising input cost. Crop Protection volumes were flat year-over-year, in part due to the phaseout of select low margin products and an approximate $70 million sales impact in the fourth quarter from supply constraints.

In Europe, Middle East and Africa, we had organic sales growth of 6% driven by strong price execution and record sunflower Seed volume. In Crop Protection, demand remains high for new and differentiated products, including Arylex herbicide and Zorvec fungicide, which enabled us to drive price and volume and gain market share in the region.

In Latin America, we delivered 27% organic sales growth and strong volume and price gains. Execution our price for value strategy, coupled with price increases to offset rising input costs, led to price gains of 10% compared to the prior year. Seed volumes increased 14%, driven by market share gains in Brazil Safrinha, while Crop Protection volumes grew 19% on strong demand for new and differentiated products such as Isoclast and Jemvelva insecticides.

Asia Pacific organic sales were up three percent compared to the prior year, with both volume and price gains. Seed volumes were down largely due to COVID related demand impacts and competitive dynamics, primarily in Southeast Asia. Crop Protection organic growth of 4% was led by continued demand for new and differentiated products, including Rinskor herbicide and Pyraxalt insecticide, both of which had volume gains in the region of more than 40% versus 2020.

Let's now move to slide 8 for a summary of our 2022 guidance. We expect net sales to be in the range of $16.7 billion to $17 billion, representing 8% growth at the midpoint driven by pricing and strong customer demand for new products and our best in class technology. 2022 operating EBITDA is expected to be in the range of $2.8 billion to $3 billion, a 13% percent improvement over prior year at the midpoint. Margins are also expected to improve with pricing and productivity actions more than offsetting further cost inflation, leading to an approximate 80 basis point improvement at the midpoint over prior year.

Operating EPS is expected to be in the range of $2.30 to $2.50 per share, an increase of 12% at the midpoint, which reflects lower average share count but also a higher effective tax rate assumption compared to 2021. Lastly, we expect free cash flow to be in the range of $1.3 to $1.6 billion, which reflects more normalized receivables assumptions and replenishment of inventory in 2022. At the midpoint, it translates to an EBITDA to free cash flow conversion of approximately 50%.

Let me talk about now the phasing of the first half versus second half revenue and operating EBITDA for 2022. On revenue, we expect strong revenue growth in the first half, with 9% to 10% reported growth, which would imply mid-single-digit growth for the second half. However, given the slower pace of inflation in early 2021 versus where we are today, we're expecting approximately 70% of our 2022 estimated cost headwinds will flow through in the first half. This is largely driven by the seasonal timing of Seed costs associated with higher commodity prices and the pace of cost inflation in Crop Protection in 2021, which was more than weighted to the second half of the year. As a result, we expect mid-single-digit growth in operating EBITDA for the first half compared to prior year, whereas our full year guide for operating EBITDA growth is 13% at the midpoint.

Let's now go to slide 9, where we'll provide some further detail on the key drivers included in the EBITDA guidance. Consistent with prior views, pricing in Seeds will more than offset the impact from higher commodity costs. For the year based on demonstrated value creation of our Seed products, we expect a global price lift of mid-single digits in local currency. Partially offsetting this is approximately $375 million of commodity costs, largely from the US and Brazil. And, again, we expect the majority of the cost headwind in Seed will be recognized in the first half of the year.

Increased planted area in Latin America and global demand for our best-in-class technology, including continued penetration of Enlist E3 soybeans are expected to drive volume increases in the segment. In Crop Protection, demand for new products remains strong and is expected to drive an additional $300 million in revenue for the full year. In addition, we expect cost headwinds to be approximately $300 million as the complex supply chain dynamics and cost inflation will continue at least through the end of the year.

[indiscernible] 00:15:37 to Seed, the majority of these costs are expected to be recognized in the first half as we lap a lower cost basis in the first half the prior year. Price increase will help mitigate these cost headwinds including another mid-single digit price increase across the majority of our US Crop Protection portfolio that was implemented in early January.

As it relates to SG&A, we're expecting $100 million in higher cost from investments to support growth and also more normalized bad debt accruals compared to 2021. In addition to pricing, we will continue use productivity initiatives to drive margin improvement. For 2022, we expect productivity savings of approximately $200 million across both segments.

And with a stronger US dollar relative to other key currencies on a year-over-year basis, we estimate a $200 million headwind from translation impact and hedging program costs. In addition to our implemented hedging programs, we'll continue to pursue local pricing where possible to mitigate this currency impact.

Turning now to slide 10. I want to leave you with what we view to be the key takeaways from today's call. Obviously, we delivered and very, very pleased with our 2021 commitments. Including an impressive margin growth in cash flow while navigating a dynamic operating environment.

As Chuck mentioned, we entered 2022 from a position of strength. We expect a year of attractive growth supported by strong customer demand across the backdrop of a solid global ag fundamentals. We remain confident in our disciplined execution, including pricing and productivity, which will in turn drive margin expansion for the year.

Our balance sheet is strong, which provides us flexibility with our capital deployment strategy. And allows us to build our track record of returning cash to shareholders while also continuing Returning cash to shareholders while also continuing to fund growth opportunities. This is bolstered by improved funded status in US pension plan, which improved to better than 90% at the end of 2021. In 2022, we expect to return $1 billion to $1.5 billion of cash via dividends and share repurchases. This is on top of the more than $1.3 billion of cash return in 2021, and it's a clear indication of our commitment to deliver value to our shareholders.

Combined, we believe this further differentiates Corteva as we're well-positioned to deliver value in 2022 and the years to come. And with that, I'm going to hand the call back over to Jeff.

Jeffrey Rudolph

Vice President-Investor Relations, Corteva, Inc.

Thanks, Dave. Now let's move on to your questions. I would like to remind you that our cautions on forward-looking Statements and non-GAAP measures apply to both our prepared remarks and the following Q&A. Operator. please provide the Q&A instructions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We also ask that you please limit yourself to one question. We'll pause for just a moment to allow everyone the opportunity to signal.

We will now take our first question from Joel Jackson at BMO Capital Markets. Your line is open. Go ahead.

Joel Jackson

Q

Hi, good morning, Chuck, Dave. I know that the $2.95 billion leaseholder target midpoint was a placeholder and now you're going to about $50 million less than what that placeholder said. Can you, with all the buckets you talked about, the moving parts, can you able to maybe talk about the $50 million delta. And also the $50 million delta. And also to that, is most of that really currency. And maybe you can elaborate a little bit on what the currency outlook is now for 2022 versus what you might have thought it was three months ago?

A

Good morning, Joel. So, yeah, the short answer is you're absolutely right. The difference with the way we would look at it, what's new would be currency. Let me – let me give you the backdrop, though, of the guidance and what we're seeing in the market. And then I'll turn it over to Dave to drill down on the currency situation. So first of all, you know, 2021 was a really strong year in ag. We saw very strong demand for our products, higher prices across the board and farmers balance sheets are strong and their income statements, and we expect very similar behavior in the ag markets in 2022.

And right now, our order book is full. So this market, it's all about supply and price execution. And I think Corteva is set up to succeed in both of those areas. The guidance that we laid out today $2.8 billion to $3 billion of EBITDA, we think that that appropriately reflects the time of the year. Don't forget that the crops not in the ground in Europe or in the United States yet, as well as some of the market uncertainties that we're seeing, namely around cost inflation.

To your question, though, so the midpoint of – our midpointare $2.9 billion. It is double-digit growth. It is still in line with the previous targets that have been provided, but it does have a new assumption which is really around currency headwinds. Now, what I think is happening here is this is our current and best thinking today. The Corteva team is really focused on cost mitigation, really taking the downside risk off the table while, at the same time, reinforcing our supply chain resiliency, driving out execution both in price and supply chain to reach out you know, as high as we can in terms of our guidance range here. And we're feeling pretty good about things. But it is so early in the season right now that this is our best thinking. And we'll like usual, we'll reflect this as we go through the quarters every quarter, and I would expect that we would narrow our range over time.

But to drill down on the specific question around currency, I'll turn it over to Dave now.

David John Anderson

A

Sure. Joel, just very quickly. And you're exactly right. As Chuck said, currency really is the, you know, when you look through the lens, it really is the fee in terms of our thinking and our planning here. Just a couple of things on currency. First of all, these are our best – these are our best assumptions at this point in time. We use third party obviously inputs for this. We also have, as you know, hedged positions we come into the year with – with some hedged positions, but most of those are cash positions. And then, if you will, the translation hedging that we do do, which is – which is pretty much focused and limited, but that cash or translation hedging that we do is also included in the assumption.

When you look at a comparative, for example, what we provided back in October. It's a $100 million difference and that really does represent the V, if you will, the variance compared to the guide that we have provided or the call it the reinforcement of the midterm guidance range that we provided at that time. And also to provide just a little bit of perspective on this, just take a minute is if you did simple math and looked at 2022 and just adjusted for currency and just say, you know, you look at equivalency. Instead of being up 11% in revenue, you'd be up around 7%. You'd be up higher than that. You'd be up instead of 8%, you'd be up 11% to around $17.1 billion. And in terms of EBITDA, rather than being up 13% at the midpoint of our guide, you'd be up around 20%, which would put us at $3 billion roughly even before the midpoint of the guide, which would translate to margin almost double in terms of basis point improvement to around 140%, 145%. So, again, just simple math, but it provides insights, hopefully that help address the point you're making. Thank you.

Operator: We'll move to our next question from Vincent Andrews with Morgan Stanley. Your line is open. Please go ahead.

Vincent Stephen Andrews Q

Thank you. Good morning, everyone. Maybe you could speak a little bit to the incremental seed cost inflation versus what you laid out three months ago, which I think is about $100 million higher. And I guess a couple of ways to go about this is first, you're now anticipating a greater gross amount of inflation in 2022 than you estimated for 2021. And clearly, the commodity price increases in 2021 are far more significant than in 2022. So, I wonder if you could just bridge that and maybe if you can just also help us understand how much of this inflation is coming in corn versus soybeans versus the balance of your seed portfolio. And if it's related to any particular geography or associated with the uptick in Enlist acres to that 40% penetration that you're looking for.

David John Anderson A

Sure. Why don't I take – this I Dave. Vincent, good morning. Why don't I take the first shot at that and then Rajan maybe you could add a little bit of color as well.

Rajan Gajaria A

Absolutely, Dave.

David John Anderson A

Yeah. So, really, the three components that you would suspect again are reference in October in terms of seed cost inflation was in the $250 million to $300 million range. Let's call it $275 million. We're now at $375 million. So,

$100 million increase. It's primarily when you think of commodity impact, it's primarily in the EU. There are some others but that significantly where it's coming from. We also have some headwind, additional headwind from yield. And then, finally, and this is a common refrain, is really freight and warehouse. You know, and it's essentially evenly distributed across those three. Rajan, any other commentary on the...

Rajan Gajaria

A

Yeah.

A

...commodity cost?

Rajan Gajaria

A

No. Just to build on that. And [ph] Vincent 00:26:01, to answer your specific question. The crop that we are talking about from a commodity standpoint in Europe would be gone. I think, in fact, from a North America perspective, all the numbers were baked into the third quarter, so nothing has changed. From a yield standpoint, we and the whole industry has had a tough thing with canola, especially in Canada and the yield impact there is increasing costs up versus what we had expected the last time we had said this.

And our freight and warehousing, this really goes across the board. We have got big increases not only in Brazil but also in North America. We have got some actions planned with advanced analytics, etcetera, to try and see what we can do to mitigate. But at this point of time, that's where our cost increases versus the last time we're coming in. That said, we feel very good about our ability to expand margins. The cost increases are here, but the pricing actions we have and the productivity actions that we have planned should continue to drive the margin expansion in the Seed business like we saw in 2021. I think, we will reinforce that in 2022.

A

Yeah. Yeah. Just a couple of comments, I guess, for the company, broadly speaking, [ph] Vincent 00:27:07. So, the supply chain challenges are real. Any global supply chain operator like Corteva will have the same situation. We think we've done a really nice job of mitigating as much of the cost as we can. And we've got a full core press on just doing exactly that for 2022.

At the same time, as I mentioned in my opening remarks, the – we are seeing very strong demand across the board for our products around the world.

So from a pricing perspective, what we've been able to do and if you look at 2021 and then you look at how we've got it for 2022, the pricing increasing is offsetting the higher cost and we are driving margin.

And I think that that is really, really important to set the stage, and I know there's a lot of industries out there that we're not able to do that. I think one of the good things about the agricultural industry right now is that we're in a very attractive market and I think growers need the products. They need the technology. And certainly from a pricing execution perspective, I think we've demonstrated that we can move – we can move prices to cover costs and grow margins.

Operator: We'll take our next question from Kevin McCarthy of Vertical Research Partners.

Kevin W. McCarthy Q

Good morning. Can you talk about the pricing outlook in crop protection chemicals? I think you had proposed a mid-single-digit price increase effective October 1. How is that flowing through? And related to that if I look at slide 29 of your deck, the crop protection chemical pricing in the quarter for herbicides and insecticides seems, you know, very different, with herbicides running 15% on price mix versus negative 2% for insecticides. So could you perhaps unpack that for us and speak to some of the swing factors there, such as glyphosate and the incremental pricing that you're layering in?

A

Sure. Hi, Kevin. So, you're right. There obviously puts and takes and it depends if we're talking about our commodity portfolio or our differentiated and new product portfolio, there are some differences there. But I'll have Tim just kind of walk you through a few of these and that should hopefully set the context.

Timothy P. Glenn A
Chief Commercial Officer & Executive Vice President, Corteva, Inc.

Yeah, Kevin, when you – when you think about the crop protection side, you know, you're right. You used the example in the US where we implemented a price increase in January or excuse me in October And I think traditionally, we price on a seasonal basis for most of our products. And that's – that's kind of the way Crop Protection has been done. You price at the beginning of the season and obviously you looked in a managed through the course of the season, but you weren't actively managing this.

Today, I'd say, we're actively managing the Crop Protection pricing is, as Dave said, and Rajan reiterated. We're working hard and we will offset all the costs that we have. But you know, the US example that you started with there, you know, we priced in October for the upcoming season, and that's when we kick off our sales season. We announced in December and early January price increase across the board in the US and that was implemented and is in the marketplace right now. And we're going to continue to monitor that. And so that's how we're going to deal with this as we go forward is to continue to be able to monitor and act accordingly as we work through the season. And that's a very different behavior than what's typically happened.

Certainly from our side, there are commodity products that are even different. And those commodities – heavy commodity products where we've seen a tremendous amount of of cost and price volatility. You know, we're acting even more frequently than that. That's even more regularly but across the whole portfolio, we're actively managing pricing across the board and we'll continue to do that. And you know, the team is committed to do that. It's not just a US, actually it's happening around the world and that's how we're going to – we're going to be able to offset as we work through this year.

Operator: We'll take our next question from Chris Parkinson at Mizuho. Your line is open. Please go ahead.

Christopher Parkinson Q

Great. Thank you very much for taking my question. So just a corollary to some of the response you just had. There were some increases in the cost assumptions in CBC versus initial framework. I think most of us understand that. Can you comment on Some of the dollar deltas versus your prioritizations? Obviously, some of the [indiscernible] 00:31:31 herbicide. But presumably, it's broadly transportation, logistics, the generic inputs for formulation and perhaps intermediate pricing, but can you just comment on how you think these trends are actually going to evolve throughout 2022 just given the current dynamics? Thank you very much.

A

Hi, Chris, yeah, so Rajan can maybe drill down on a few of the questions that you've got there and then maybe Dave can wrap up with sort of the higher level how we did overall in 2021 and expectations for 2022.

A

Sure. Yeah. Hi, Chris. I think I like you rightly pointed out of between where we were last time and where we are now. The single biggest change is glyphosate. And I think that continues to be a big part of the cost increase. That said, like [indiscernible] 00:32:16 mentioned, we do cover the glyphosate cost increases with price. We did that in 2021 and so we feel very confident about that in 2022.

On freight and logistics, that is increased just based upon the inflationary costs that we are seeing there, the tightness of supply and freight, et cetera. But the one element specifically, I would point out, is that as supply chains become tight, we do have to plan for air freight type of things to make sure that we can get the high margin product to the customers in time. And so that also is something that continues to evolve.

From other raw material perspective, I think the increases are more or less in line with what we have said before the inflationary trends continue. We do have some strong productivity actions with our procurement team to try and offset that, but that continues to be what we had planned for last time we had mentioned it. So, those would be some of the specific things that are driving the cost increases on the Crop Protection [indiscernible] 00:33:11.

A

And Chris, was the other element of your question, make sure I'm answering correctly, let me just share with you 2021, and I think we had talked about this, but just make sure we've got these correct for you. Crop Protection 2021 full year you know, 11% organic growth. We have price gains in every regions. We had 6% volume gain. And by the way, that 6% volume gain in – is net of nearly a 4% impact from discontinued products. So, you know, pretty significant performance.

And then, operating EBITDA was up 20%. Margins improved more than 100 basis points. So, I think that Rajan really sets the stage. You know, as we think about 2022. And, again, what we talked about and reinforced was the contribution of new products, $300 million in terms of our planned number of guides in the summer for new product contribution revenue in 2022.

A

Absolutely. The new product portfolio continues to grow and will help us not only offset the cost increases, but also from a pricing opportunity creates another opportunity for us to exact value and put that to the bottom line. So, I completely agree there.

Q

Yeah. Thank you.

Operator: We'll take our next question from P.J. Juvekar with Citi. Your line is open. Please go ahead.

P.J. Juvekar

Q

Yes. Hi, good morning. A specific question on insecticides. You know, despite new products there, insecticide volumes were down in the 4Q and for the full year. And I know that you stopped selling some low margin products. Was there a big impact in insecticides? And then taking a step back on insecticides, I think, you know, there are new chemistries insect – in insecticides that are becoming popular like biodegradable insecticides. And they're taking share away from older chemistries like, you know, carbomers and chlorophyll for us. Can you talk about your portfolio and how much of that is in the older chemistries? Was this, you know, how much is the new chemistries and what's the negative volume impact from the old chemistries? Thank you.

A

Yeah. Hi, P.J. Why don't they think that? First and foremost, take that up. First and foremost, let's start with the big picture. I think if you take the products that we have discontinued, like you pointed out, the chlorpyrifos is one of them, the low margin product. Our insecticide business actually grew 14% year-over-year. So we have seen double-digit growth and that continues to be a franchise that continues to do well for us.

Relative to the profile of the insecticide market, how that is changing. You're exactly right. And let me double click on Spinosyns. And this is the world's largest selling insecticide, which is naturally derived, and we are on track this year to get to about $1 billion dollars on the Spinosyns franchise. Not only are we seeing increased volume from the capacity increases that we have built in, we continue to see price increases and some of the productivity actions that we are taking are actually helping us even increase margins as the product continues to grow from a top line perspective. So the Spinosyns business continues to be a big part of our portfolio.

Talking about new products, Isoclast comes to mind. Isoclast again this is a product which is getting close to $300 million, and it's been a big part of what we are doing. Pyraxalt, this is another product which we talk about in Asia Pacific. So the reason I'm walking you through all this is that the patented and differentiated part of our insecticide portfolio is actually pretty large, and these are high margin products which go through diverse crops. We have the balance that we see from natural products and products that continue to grow. So we feel really good about the insecticides portfolio that we have and the 14%, just to underline that growth that we had despite the product phase out underlines that, and we continue to expect to see that same momentum in 2022 from a top line but more importantly margin expansion standpoint.

Operator: We'll move to our next question. David Begleiter at Deutsche Bank. Your line is open. Please go ahead.

David Begleiter

Q

Thank you. Good morning. Chuck, you've now been CEO for three months of Corteva. What's your perspective on what Corteva does well and what it could do better? You also mentioned some faster paced growth going forward. Can you give a little more color on how you hope to unlock the value you highlighted? Thank you.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. Thanks, David. Sure. So you're right. I've been on the job now for three months. It's been great. I've seen a lot of the operations, primarily in North America. I haven't went to international yet because of COVID, but obviously integrating with the global team. First of all, what I'd say is I'm quite pleased with the financial and the operating performance throughout 2021 and certainly how we ended the year. And I would say that I'm more optimistic today than when I first joined. There is significant value in this company to be delivered. We're doing that work now. It's a little early for me to give you numbers, but some of the areas that I think we need to focus on, obviously in this environment, what we're talking about is price execution and supply chain resiliency.

And I think that the company has invested a lot of force into that area. But there's probably more work we need and should be doing, just like every company in that area. The other is our technology and innovation pipeline. I think it's a great asset for the organization. I think we have some wonderful future products coming out of the pipeline that's going to drive long-term value, and I'm really pleased with what I've seen so far. Then some of the remarks we've already made, so we are having a really good look at the global portfolio and what I would call the operational footprint. So we're looking at where we make money and where we spend money just to be candid with you and we're unlocking.

We think there's a lot of opportunity in these areas and we've got a team that's actively working around the clock on these issues. And it's probably a little, like I said, a little early to get too far ahead of this work, but we're quite excited about it.

So, what we plan to do is we plan to have an Investor Day likely in the summer or late summer where we would like to share with the world some new targets, some new financial targets, some new operating targets. We would also like to showcase the technology pipeline. I think it is going to be a great thing for the world to see what we're doing from a technology perspective and putting on all this together, what it means for long-term value creation for Corteva.

So the work – the hard work is being done now. I think there's a lot of excitement. I think that this management team is up for the challenge and the change, and we'll be back to you, probably, by the summertime for our Investor Day.

Operator: [indiscernible] 00:40:11 Jeff Zekauskas with JPMorgan. Your line is open. Please go ahead.

Jeffrey J. Zekauskas

Q

Thanks very much. A two-part question, can you talk about how much your royalty payments decreased in 2021 and what were the factors behind that and what you expect for 2022?

And secondly, your operating cash flow was higher than your EBITDA, in part because you're – you were able to elevate your level of payables by maybe $500 million year-over-year. Can you run with a much higher level of payables than you've been doing historically so that your operating cash flow levels remain pretty high relative to EBITDA?

A

Okay. Why doesn't Rajan take the royalty question, and Dave, you can handle the operating cash flow?

A

Sure.

A

Go ahead, Rajan.

Rajan Gajaria

A

Yes. Good morning, Jeff. Yeah, on the royalties part, we did see a step improvement in our royalty reduction in 2021. Some of that is the continued ramp-up of the Enlist portfolio.

But we also had work down on the com side with some [indiscernible] 00:41:21 that we've had negotiations done. So, we did see a step improvement about $80 million to $90 million on royalty reductions in 2021. We are on track for our long-term royalty to begin [indiscernible] 00:41:35 in neutral by the 2028-2029 period. We'll see some marginal improvements in 2022, primarily continued by driving the Enlist portfolio.

We are also beginning to launch Enlist in our own Corteva germplasm, which will be a further reduction of royalties in 2022. But the big step changes are going to come in from 2023. There are some offsets where we do have some increased royalties for molecule, for the traits that we use in soybeans and Latin America, etcetera. But all in all, we are on track for delivering against the commitment of being a net positive. We had a big improvement in 2021 and we'll see some changes in 2022 with step improvements 2023 on.

A

Yeah. And Jeff, I could take maybe part two of that, which, you know, around the payables and the cash flow from operations, as well as our free cash flow. So, you know, as you said, we had a lot of focus and a lot of positive that resulted from that focus in terms of our working capital initiatives in 2021. We had, as you said, we had the benefit of payables and specifically there. We had a lot of focus around our days payables outstanding as well as our average weighted daily payment terms. So, that's just going to continue. The numbers that I think are really important here when we think about our 2022 guide really relate to receivables. So, we had a significant benefit in terms of our receivables performance in our cash collections in 2021. We expect to continue attractive, but not nearly to that level performance in 2022. That's the big variable, as well as some change year-over-year in terms of the contribution from prepaid or deferred revenue, particularly in the US in the fourth quarter. So that's really the difference when you walk year-over-year in terms of our cash from operations, cash taxes are essentially the same. Other elements in terms of the ash from operations are essentially the same. And then when you look at the free cash flow, we are forecasting a slight uptick, $70 billion uptick on our CapEx on a year-over-year basis.

A

Yeah. And Jeff, just maybe a couple of comments. It's interesting how you put these two questions together. So if you look at it from an operating perspective, what we're trying to do with royalties are our new CP products driving some of the operational work I just described, that's going to drive enhanced margins. And then Dave and his team are really focused on cash, cash management and trying to get as much of that margin into the cash as we can. And I think that there's just a tremendous opportunity here for this company to generate more cash flow.

A

Yeah.

Q

Thank you.

Operator: We'll move next to Steve Byrne with Bank of America. Your line is open. Please go ahead.

Steve Byrne

Q

Yes, thank you. There's been some recent EPA commentary about dicamba that suggests they might ban over the top use in 2023. If that were announced sometime in this calendar year, where do you think that would drive unless penetration in 2023? Were you have any extend left in your soybean seed plots fruit form in 2023? And those – are all legal settlement was there, will there be any more payments on that after this year?

A

Well, Steve, this is Rajan.

nice to hear from you. Well, the Enlist franchise continue to grow. And Enlist has a system, actually this year I think we'll be crossing $1 billion in debt. And the Enlist herbicide is a big part of it. Our estimate is that Enlist system when it cross 40% of this year, more than 80% of the acres that have the Enlist system actually use the Enlist herbicide. We do have a very strong asset and a strong supply chain. So, as opportunities come up to expand Enlist, I think we have the flexibility and capability of growing the Enlist herbicide business.

Also, happy to say that we did get the seven year registration done. Our regulatory and R&D team did a fantastic job of getting that. So, the customer demand gets the confidence in the system. And so, we see continued growth of where the Enlist system would.

About 00:46:06, we'll wait and see how the market reacts. But I think we've got the flexibility and the confidence to be able to continue to grow the Enlist system franchise. And we do have the supply chain flexibilities to grow the Enlist herbicide as the need arises.

Operator: We'll move next to John Roberts with UBS. Your line is open. Please go ahead.

John Roberts

Q

Thank you. Chuck, back to your first impressions. You bring a lot of experience in the retail channel. And Corteva uses retail for pesticides and for some of the seeds like Brevant. Anything surprising in how Corteva uses retail or in the bundling programs or in the Pioneer brands direct strategy.

Charles V. Magro
Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. Hi, [ph] John 00:46:51. So, so far, what I've seen and I've talked to all of our major retail customers and I've got lots of insight. They were very candid with me and it was great conversations over the last, I'd say, two months. So look, the Pioneer network, I still think is a strategic asset. So, I want to be clear on that. It's unique. It drives a lot of value for Corteva.

And I think there is obviously things that we can do to improve it to engage. But, overall, I'm really pleased with what I've seen. But I think there is an untapped opportunity for companies like Corteva to have a deeper relationship with the retail channel.

So, Brevant, for example, it makes really good sense and the retailers are asking for more choice. And they want that choice from companies that can bring real technology to them because it helps them differentiate with their customers if they can bring differentiated technology.

It's early days but what I've seen so far is we're having – and I'll have – maybe have Tim comment on some specifics for 2022. But we had a very good year in 2021 with Brevant. I think that there's good demand out there. There's a lot of energy in terms of wanting to engage with Corteva with the technology. And then beyond that, we – I think what we can see is that our Crop Protection products, the differentiated ones are very, very strong demand from the retail channel.

And is there an opportunity to have a different relationship, a more strategic relationship with the retailers? Absolutely. In fact, on almost every conversation, that's how we ended it with – this should not just be a commercial transaction, this needs to be much more strategic. And what that means, we need to take some time to figure it out. But I think that there's a really good opportunity here for Corteva to have deeper relationships with the retail channel. And I think that would be welcome. Maybe, Tim, you can just cover what you're seeing with the retail channel in Brevant?

Timothy P. Glenn
Chief Commercial Officer & Executive Vice President, Corteva, Inc.

A

Yeah, absolutely, Chuck. And [ph] John 00:48:49, good question. You know, what – it's – we've been talking about Brevant in the US for a little while here but we've got to remember that 2021 was really the completion of our first season as a business with Brevant in the US. And, you know, good news is, you know, we met or beat our price and volume goals that we had. You know, one of the things we talked about and your question really goes to it is building that credibility with our channel partners.

And, you know, we needed this Brevant business. And not only be good for us, but also good for their business, and that is very important for us. And finally, we obviously needed to satisfy our farmer customers. You know, the good news coming out of 2021 is we're happy with how it turned out for our business. Feedback we're getting from our channel partners is exceptional and I had an opportunity earlier this week to meet with a couple of retail groups out of the Northern Corn Belt and got very good feedback from them on how we're doing and also product performance was outstanding.

So farmers are very satisfied with how the Brevant business performed for them. So, you know, it really has translated into a much greater point of growth for our business in retail. I think over time, you know, our job, our objective is not to go out there and do cross-sells and things like that. It's to build these deep relationships with our retail partners on how we can go out and do good business together across both Seed and Crop Protection. And that's what's important as we as we go into 2022 year two of Brevant, you know, we're expecting growth similar to what we had in 2021 in terms of volume. So that's very good where we're at and our order position supports that right now. And certainly, the strong feedback we've gotten from our channel partners supports that there enthusiasm for what we're doing there. So it is a great story for our business and also it is a very strategic action for Corteva as we build our channel, as we build our relationship with our distributor and retail partners.

Operator: We'll go next to Michael Piken with Cleveland Research. Your line is open. Please go ahead.

Michael Piken
Analyst, Cleveland Research Co. LLC

Q

Yeah, good morning. I was hoping to get a little bit more of an update on kind of in South America in the back half of the year, Conkesta and your outlook for the acreage there over for this year and then over the next couple of years and what it might mean for incremental sales in the west herbicides as well.

A

Tim, why don't you take that for Michael?

Timothy P. Glenn
Chief Commercial Officer & Executive Vice President, Corteva, Inc.

A

Yeah. Michael, I mean, obviously, you know, we're still wrapping up the 2021, 2022 season in Latin America and working through that and really excited about how that's going. And looking at the 2022/2023 season, here in the second half, you know, Conkesta was an important part. Not necessarily from a financial or impact on a result but in terms of a bit step forward in terms of a strategic initiative. And the way we positioned our Conkesta business this year was really to go out there and do this as a pilot, allow our customers to get experience and get a good idea of how the technology will work in the marketplace.

As we go into 2022/2023, so that crop that will be planted in the second half of the season. I would still think of it in terms of that scale. And the reason is we're still, you know, introducing the technology. We're still filling out the portfolio of products that are available. So, farmers have a good selection of varieties that fit their needs. And also, you know, we want to get – we want to make sure that customers have a very positive experience with the technology, not just from an insect control, but also weed management standpoint, as you said.

So we're still in that, I'd say, slow ramp up phase. It's meaningful and important work for us and we're very committed to it. As we go down the road, obviously, you know, as the portfolio fills out, we'll continue to ramp that up. I think that the herbicide system, it's an important part. You know, there's tremendous focus in Latin America and, especially, Brazil on insect control within soybeans. But I think our ability to position and list herbicide alongside that strong insect protection is going to bring new value and help differentiate Conkesta in the marketplace.

So, you know, I'm sure as we go through and do our technology, they will update what that growth trajectory might look like. But think about this next half of the year, it really is sort of an expansion of that pilot so that we can really get that technology well established and understood in the marketplace.

Operator: We'll move to our next question, comes from Arun Viswanathan at RBC Capital Markets.

Your line is open. Please go ahead.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question. I just wanted to clarify, so it sounds like you've incorporated kind of a $50 million currency headwind for 2022 in the guidance. Where, I guess, are you most concerned about, you know, and then you also expressed that you potentially could have some pricing actions that would – would offset that.

So I guess, where would you think that you could actually be successful in gaining price? And maybe you could try to offset the currency specifically and maybe if you can comment on channel inventories as well and certain of those region, that'd be great. Thanks.

A

Why don't I take the currency piece and then, Tim, you want to talk about the channel inventory? Thank you very much. So on the currency side of it, you know, as we said, we built in a $200 million EBITDA impact when you – when you walk the 2021 to 2022 midpoint. And significantly, it's across the range of currencies, you know, that we're – that we're exposed to. Again, it's a forecast. It also includes some of our hedge positions today specifically on the Brazilian real.

I would say in terms of pricing, we'll look at that in every market, in wherever we have opportunity to do so. So, you know, that will play out over the course of the year just as the currency is just a forecast today and that's going to play out over the course of the year. So it's in the mix. We also have natural hedges, you know, that are involved with some local currency expense that will help us over – over the course of the year, that we'll factor in into that now. So overall, we feel it's manageable. We'll do our – do our best on all fronts.

Tim, you want to talk about The channel inventory point?

A

Yeah, absolutely. And when you look at it – you look at our business in 2021, 2021 obviously we had very strong out-the-door sales. And the focus – it's great to be able to record those sales, but focus of our field sales organization is to make sure that that product gets on the ground. Sell it to the distributor, have it go through the channel, and ultimately, get in the hands of our customers. And so we tracked this very closely throughout the season and as we wrap up seasons really to understand where we sit across the entire portfolio.

Overall, I'd say we feel very good about where we sit in terms of inventories in the major markets. Clearly, you know, we're in the – towards the tail end of the season in Latin America, and Brazil always gets a lot of interest here and especially with the strong growth that we've seen across the board in Brazil from a Crop Protection standpoint.

I think our belief right now is that we are seeing some increases in terms of overall industry inventory levels in Brazil and that's sort of a general statement. It's going to be probably different by segment within the market and in geography within Brazil. But as we look at where we sit today, we believe that we are lower than the market overall and that we're still at a very healthy level for our business in Brazil.

So, in terms of the impact as we go through the season, we'll continue to track that as things wrap up and business gets completed on this part and as we go to the next season, but we'd still feel like we're in a good spot there.

In terms of other markets, I'd say, inventory levels, the way I describe it is from comfortable meaning that there's a kind of a regular or normal amount of inventory in the channel to it even being tight. We have a lot of business that's going kind of hand-to-mouth here. So, we've talked about challenges around supply, not just cost. It's also just getting product in the hands of our customers on a timely basis. And our teams are tremendously focused on that.

So, we also have segments of the markets where there's very little inventory out there Uncomfortably little inventory that we're working with. So, we're watching it on a daily basis. But as we sit here right now we do not see this as a learning factor for our 2022 business.

Operator: We'll move to our next question from Frank Mitsch at Fermium Research. Your line is open. Please go ahead.

Frank J. Mitsch

Q

Thank you. You know, as I listen to the commentaries, it seems like there's a lot of positives moving over the next few years on the profit improvement side of things. So, I was just wondering you have a pristine balance sheet. Was there any thought, and you know, and you are guiding roughly $800 million in buybacks plus or minus a couple hundred million this year. Any thought to maybe using that pristine balance sheet and taking on a little debt and adding to the buybacks ahead all of profit growth that you guys are talking about?

A

So, let me just give a little perspective, and then I'll turn it over to Chuck for his commentary. It's a really good question. I think, to give you some perspective, and we just chatted about this a little bit earlier today in terms of just looking at the math. When you look at the cash flow over the last two years, Frank, if you use the midpoint of our guide for this year, $1.450 billion, that's add to $3.6 billion. Sol. in other words, from 2150 – from 2021, combined with the midpoint of our current guidance. If you use the midpoint again of our guide, you referenced that $800 billion of share buyback that would sum to a total of $2.55 billion over the two years, $2.55 billion when combined with $800 million of dividend. So, $1.75 billion and in share buyback, $800 million in dividend gives you the $2.55 billion which is about 70% of the $3.6 billion.

So it obviously reinforces what we've stated in terms of our commitment to return cash to shareholders.

I'll let then Chuck really give a strategic lens, you know, against that backdrop.

Charles V. Magro
Chief Executive Officer & Director, Corteva, Inc.

A

Yeah, Frank, so it's a good question. And certainly when I think about the balance sheet, it's a strategic asset. We're going to be disciplined, of course, but it's we're going to put it to work to drive long term shareholder value. It is clean, like you mentioned it can, you know, certainly I – when I when I think about the financial horsepower that this company has with the balance sheet, plus what we generate from a free cash flow perspective, we have a lot of opportunity to do both, right?

We're in a really positive position where we can invest for EBITDA and margin expansion and we could return significant capital to shareholders through dividends and buybacks. So we're working with the board to figure out what – what that formula exactly looks like. There'll be more to come on that. The other thing I'll just introduce is that I believe that we need a good M&A capability inside Corteva. It is something that I'm looking at quite carefully.

Again, we will be disciplined. We will do M&A to drive earnings, to drive margin and ROIC. But that is something when we – once we're finished with our look at our global portfolio and how our asset footprint looks around the world, if there's some gaps, we'll either look to build it or to buy it. So we've got just an exciting future when it comes to using not only the operational capability, but the balance sheet that we have in the company.

Operator: And that was our final question for today's call. I'll now turn the conference back to Mr. Jeff Rudolph for any additional or closing comments.

Jeffrey Rudolph
Vice President-Investor Relations, Corteva, Inc.

Thank you. That concludes today's call. The investor relations team is here for your follow up questions, so we look forward to those. We thank you for your interest in Corteva and wish you a great day. Thank you very much.

Operator: Thank you.

And again, ladies and gentlemen, that does conclude today's call and you may disconnect at this time and have a great day.

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