Corteva Agriscience 4Q-FY 2019 Earnings Conference Call Transcript

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Operator

Good day everyone, and welcome to the Corteva Q4 Earnings Conference Call. Today's conference is being recorded. And at this time, I would like to turn the conference over to Megan Britt. Please go ahead.

Megan Britt
Investor Relations Director

Good morning and welcome to the fourth quarter and full year 2019 earnings conference call for Corteva Agriscience. The call is available to investors and via webcast. We have prepared presentation slides to supplement our comments during this call. These slides are posted on the Investor Relations section of the Corteva website and through the link to our webcast.

Speaking on the call today are Jim Collins, Chief Executive Officer; Tim Glenn, Executive Vice President and Chief Commercial Officer; Rajan Gajaria, Executive Vice President of Business Platform; and Greg Freidman, Executive Vice President and Chief Financial Officer.

During this call, we will make forward-looking statements regarding our expectations for the future. Slides 2 and 3 of our earnings release contain our forward-looking statement disclaimers. All statements that address expectations or projections about the future are forward-looking statements.

These statements reflect our current expectations that are not guarantees of future performance and are subject to risks and uncertainty regarding assumptions. Our SEC filings provide discussion of some of the factors that could cause material differences and our actual results.

We are providing information on a pro forma basis, prepared in conformity with Regulation S-X to provide the most meaningful comparison. We provide a pro forma basis discussion in our earnings release and slides. Unless otherwise specified, all historical financial measures presented today exclude significant items, which can be found in the schedules that accompany our earnings release. We will also refer to non-GAAP measures. A reconciliation to the most directly comparable GAAP financial measure where available and other associated disclosures are contained in our earnings release and on our website.

It’s now my pleasure to turn the call over to Jim.

Jim Collins
Chief Executive Officer

Thank you, Megan. And thank you and welcome to the participants joining the call. Earlier today we reported fourth quarter and full year results for 2019. Our key operational performance indicators for the full year are captured on Chart 4.

Net sales, on a reported basis decreased 3% versus the prior year primarily due to currency. On an organic basis, net sales were flat as weather-related declines in North America were offset by above market organic growth in other regions.

Outside of North America, reported net sales were up 1% and organic sales were up 7% demonstrating the strength of our pipeline, brands and multi-channel distribution strategy.

Operating EBITDA declined 4% compared to prior year largely driven by currency and weather-related price and volume declines in North America. Continued realization of cost synergies, disciplined spending actions, increased sales from new products and gains on divestitures were a benefit.

Operating EBITDA margin declined 10 basis points for the full year for the company. In Crop Protection, new product sales and gains on divestitures resulted in margin expansion. In Seed, weather-related price and volume declines in North America drove margin decline.

Selling, general and administrative and R&D costs declined 4% for the full year due to cost synergy realizations and the benefit from disciplined spending actions. In total, we realized approximately $350 million in cost synergies accelerating the $50 million of savings into 2019 relative to our expectations at the beginning of the year.

Overall, these indicators show that we capitalized on the strength of our product pipeline and realized above market organic growth outside of north America. We also delivered on our cost synergy commitments and intensified our productivity actions to support sustainable operating EBITDA expansion. Finally, we acted on our portfolio to divest products that are not aligned with our strategy moving forward.

Turning to Slide 5, we had previously talked about ROIC as our key performance indicator to assess our effectiveness in using capital to generate earnings. We are targeting a sustained mid to high teens percent performance on this metric. Using a four-quarter average, we delivered a return of 19.8% for 2019. Now this result demonstrates our focus on driving effective risk management, reducing inventory carryover and maintaining diligence on accounts receivable and collections. Going forward, our ERP implementation will be critical to maintaining performance at this level. Our harmonized ERP system will allow our teams to have real time transparency and actionable data to drive continued working capital productivity.

Slide 6 highlights our progress on our five priorities for shareholder value creation. These priorities guide our strategic actions and underscore the quality of the results we are committed to achieve.

Starting first on culture, given the historic market backdrop, it is sometimes easy to forget that we launched a new pure-play agriculture company in June with the new Corteva brand, new values and a new purpose.

In our first quarter as a public company, we put in place a cultural transformation called Execute to Win. This is an example of how we intend to operate differently as Corteva. In 2020 we are targeting $30 million in operating EBITDA benefit as we get started on delivering our target of $500 million in incremental operating EBITDA over the next five years.

Moving to capital allocation, we look to invest productively in innovation and growth. An example is the project announced last quarter to add additional manufacturing capacity for key Spinosyns insecticide products. While continuing to invest in innovation and growth, we are committed to delivering value to shareholders in the form of quarterly dividends and share repurchases. In total, our actions returned approximately $220 million to shareholders in 2019.

On our priority related to developing innovative solutions, we received regulatory approvals in 2019 for several proprietary traits. In February, we received the final import approvals necessary to launch and list E3 soybean products and Qrome corn products. In late December China approved our Conkesta insect control trait in soybeans. Conkesta soybean import approval had been in progress in China since 2014. The receipt of China approval for Conkesta is a necessary step for commercialization of Conkesta E3 product in Latin America. This is another important milestone toward trait independence.

Today we announced our intention to accelerate product development and production of Enlist E3 soybean products along with Enlist One and Enlist Duo herbicides ahead of the 2021 selling season. This decision reflects our focus on rapidly ramping up differentiated technology solutions that we expect will enable greater choice and value for growers over time.

On our priority around best-in-class cost structure, we delivered $50 million in cost synergies in the quarter and approximately $350 million for the full year. Overall, we have realized cumulative cost savings through the end of 2019 of $800 million out of the $1.2 billion commitment expected through 2021. In 2019 we also authorized and launched an ERP harmonization project that is focused on eliminating approximately $200 million in cost inherited with the spin.

Finally, weather-related impacts and currency obscured several positive signs of operational momentum in 2019. Of note are strong growth in insecticides, and our positive organic net sales performance outside of North America. We took several actions in Seed like launching our global retail brand, Brevant, and restructuring our brands in North America to create a more powerful regional anchor brands that we expect to deliver above market growth in the future and continued momentum on share gains in local markets.

And now I'll turn the call over to Tim to provide some details on our commercial performance.

Tim Glenn
EVP & Chief Commercial Officer

Thanks, Jim. Starting on Slide 7, I'll provide details on how our teams executed around the globe in terms of top line performance. 2019 was a very complex and dynamic ag market but through all of that I'm proud of how our teams positioned themselves to win in the market and deliver above market growth.

In North America organic net sales were down 6% due to the weather-related delays approximately 11 million fewer acres of corn and soybeans were planted in the US year over year. As a result, seed units were down significantly and reduced applications had a negative impact on crop protection. Pricing was challenged due to higher replants in both soybeans and corn coupled with heightened competitiveness in the marketplace around soybean pricing.

Despite a very challenging environment, our teams achieved share gains in both pioneer corn and soybeans for the year. Additionally, excluding replant, we were able to hold price flat in pioneer corn. In terms of crop protection inventories, we see elevated levels in the US market primarily in corn and soybean herbicides. We also saw strong early demand in the fourth quarter for Enlist chemistry due to 2020 ramp-up.

In Latin America our teams delivered 8% organic growth led by strong demand for new products. We've successfully implemented the brand positioning for Brevant and launched new technology like PowerCore Ultra which resulted in share gain in summer corn in Brazil. We did see a more normal start to the second corn crop for safrinha season which limited volumes in the fourth quarter but we expect to see those sales in first quarter 2020. In Crop Protection new product launch Isoclast insecticide contributed to growth as we obtained registration for the product in Brazil and the overall insecticide market continues to expand.

In Asia Pacific we delivered 3% organic growth on improved pricing and volumes under challenging and dynamic market conditions. Insecticides continue to drive growth particularly in our Spinosyns product offering given strong local demand. Draught conditions limited our opportunity to drive fungicide sales particularly in South Asia and Australia. In Seed, the launch of our Brevant brand in the India corn market and an integrated portfolio approach around rice continues to be a strategy that enables us to win in the market.

In Europe, Middle East and Africa gains in volume and price led to organic growth of 7% versus a market growth of around 1%. In Europe, strong demand for new products like Arylex herbicide and Zorvec fungicide continue to drive top line growth despite regulatory challenges for other products including Chlorpyrifos.

We believe that our Seed and Crop Protection business gained share across Europe this year primarily due to strong demand for new products. In particular, route to market changes in Russia and Ukraine drove market share growth in both corn and sunflower seed.

Now before I turn the call over to Rajan, I want to quickly make a point on Slide 8 that I believe sets us apart in the marketplace and is at the center of how we operate each and every day. And that starts with demand creation; our ability to create demand or market pull for Corteva products and services through direct contact with farmers.

At our core is the focus on servicing farmer customers and our ability to be on the ground working closely with them to find technology and agronomic solutions that meet their needs and address their challenges. We use multiple paths to reach farmers including strong collaboration with our channel partners and an increasing use of digital technology to support face to face contact in the field.

There are several illustrations on this chart including education of customers on solutions demand on a new insect path that was threatening their crop and livelihood, the introduction of a new rights production system that will deliver economic, societal and environmental benefits, and the introduction of a new solution that combined seed and crop protection technologies to address one of the most pressing needs of soybean farmers.

This relentless focus on the customer is something we believe we do better than anyone else in the industry as we engage with more than 10 million farmers worldwide. As a result, we've gained in Asia for insecticides, we've sold more than 6 million units of Brevant-branded corn after just launching two years ago, and have overcome portfolio changes in our Brazil corn business as the result of the merger through share gains just to name a few.

I'll now turn it over to Rajan to review segment performance.

Rajan Gajaria
EVP, Business Platforms

Thank you, Tim. Turning to Slide 9 highlighting the performance for full year in both our Crop Protection and Seed segments. In Crop Protection net sales were $6.3 billion, down 3% from the prior year. The decrease was primarily due to 3% decline from currency. Organic net sales increased 1% from the prior year partially due to volume improvement on new and differentiated products. The percent of sales from patented and differentiated products for 2019 was approximately 30%, up from approximately 25% in 2018.

Crop Protection operating EBITDA was approximately $1.1 billion, down 1%. Unfavorable currency, volume declines in North America and higher input costs excluding synergies drove the decline in EBITDA. The segment delivered on cost synergies and realized a benefit from new products and gain on divestitures. For the full year Crop Protection delivered approximately 30 basis points of operating EBITDA margin expansion.

In Seed, net sales were $7.6 billion, down 3% for the year. Currency was a headwind of 2%. Weather-related impacts in North America were partially offset by growth in other regions, particularly strong demand and pricing on PowerCore Ultra corn products in Latin America, new route to market enhancements in Europe and market share gains in corn in South Asia.

Seed operating EBITDA was approximately $1 billion, down 9% versus the prior year reflecting the impact of the North America weather-related decline, market competitiveness in soybeans and unfavorable currency. Cost synergies, particularly in R&D and seed production, were a benefit to the segment.

Turning now to Slide 10 for a closer look at several products that contributed to the full year segment results and are helping to create a clear path for future above market growth.

Starting with insecticides the overall market grew 6%. Corteva net sales were $1.7 billion, an increase of 10% from the prior year. Organic net sales were up 14%. This growth was led by unique Spinosyns franchise. Outside of North America Spinosyns contributed 40% of the organic net sales growth for Crop Protection despite supply constraints in several regions.

As we expect strong market growth in insecticides to continue, we recently announced our intention to add additional capacity in support of our Spinosyns insecticide offering. The combined impact of our investments since merger close will essentially double our capacity at full utilization to address global market growth in insecticides.

Looking next at corn, net sales were $5.1 billion in 2019, down 1% from the prior year. With nearly 60% of global corn sales originating in North America, weather-related volume and price impacts in that region resulted in the decline. Though it was a challenging year, we are seeing green shoots sprouting.

Qrome corn products received China import approval in February 2019 and were offered commercially across a broad range of geographies. In November we shared the results of our field trials. Pioneered brand Qrome products delivered nearly a seven bushel per acre average yield advantage measured against all competitors and comparable technology segments.

In 2020, Qrome products are expected to represent 20% of our corn line. With the demonstrated yield advantage we expect Qrome products to deliver low single digit price improvements year over year.

And today we announced our decision to accelerate production of Enlist E3 soybeans along with the Enlist One and Enlist Duo herbicide. During the fourth quarter of 2019, we finalized our breeding plans and large scale product development timelines that enable the seed ramp up. We believe Enlist E3 soybeans launched in 2019 in the United States and Canada are the most advanced weed control trait technology for soybeans.

Following the positive on-farm performance of Enlist E3 soybeans in the fall of 2019, we received supportive feedback from growers, retailers and independent seed companies. So, we have accelerated our ramp up plans to deliver this important technology even faster than originally anticipated.

We now estimate that Enlist E3 soybean penetration in 2020 will be 20% of total North America acres, up from the 10% previously indicated. These are just a few examples of tangible actions that underscore our target of growing 2% to 3% above the market over the mid-term.

With that I'll turn the call over to Greg who will provide details on our financials.

Greg Friedman
EVP & Chief Financial Officer

Thank you, Rajan. Turning to Slide 11 for a brief overview of our fourth quarter performance. Net sales on a reported basis improved 6% versus the prior year primarily due to strong volumes in both North America and Latin America partially offset by currency. Organic sales were up 9% with improvements in both segments.

In Seed, we delivered 13% organic growth led by both volume and price improvements primarily in North America and Latin America. Specifically, we reported higher sales in our multi-channel brands in the US versus prior year due to improved supply chain performance. Continued penetration of new products in Latin America drove 8% pricing improvement for the quarter.

In Crop Protection, organic sales improved 7% for the quarter on broad based growth in most regions which was led by North America with improved volumes from early demand for Enlist herbicides in advance of the 2020 season. In addition, continued ramp of new products, particularly insecticides in Europe, Middle East and Africa and Latin America helped drive volume and price improvements.

Operating EBITDA of $224 million improved by $174 million compared to prior year largely driven by higher sales in both segments, continued realization of cost synergies and gains on divestitures. Margins benefited from improved mix from PowerCore Ultra in Latin America and demand for new crop protection products like Isoclast insecticide and Enlist herbicide.

Gains on divestitures aligned with our ongoing best owner portfolio strategy resulted in approximately $70 million of gains in the quarter. R&D expense was lower by more than $50 million in the quarter compared to prior year due to cost synergies, timing as well as focused actions to control spending.

Turning to Slide 12 for a year over year comparison of operating EPS. Currency was a 19 cent headwind for the year primarily from the Brazilian real and the euro. Volume and price amounted to a 4 cent decline year over year primarily due to weather-related impacts in North America and competitive pricing in soybeans.

Costs were better by 8 cents on continued realization of merger-related synergies which were partially offset by higher input costs in Seed. Our base tax rate for the year was 19.6% representing a reduction of 6 cents compared to prior year. We generated 10 cents of benefit from foreign exchange gains related to our balance sheet hedging program. Lastly, other was a 2 cent benefit primarily from gains on divestitures.

Turning now to Slide 13, I'll provide our full year guidance for 2020. Considering our market backdrop, a few key areas that we continue to monitor include commodity price levels, near term fluctuations in trade and expected farm level profitability. There continues to be uncertainties in each of these areas which impact customer planting decisions and input purchases. Our full year guidance incorporates caution relative to these uncertainties.

Touching first on net sales, we expect reported net sales to be approximately $14.5 billion, up about 4% to 5% over prior year. This primarily reflects normalized conditions in the North America market coupled with continued ramp of new products globally in both our Crop Protection and Seed segments. We expect global ag markets will grow at about 2.5% to 3% next year as US corn and soybean area and production are expected to be higher in 2020 on a return to normal planting season weather.

Global demand for agricultural products continues to be strong helping reduce ending stock in both corn and soybeans. Market opinions differ on the degree of increase for both corn and soybean area and this will continue to materialize into the first half as growers make their ultimate planting decisions.

At this point, we expect currency to be relatively flat year over year, however, we are closely monitoring currency movements in Latin America particularly the real as well as employing hedging strategies to help manage volatility.

On operating EBITDA, we expect to deliver about 12% improvement year over year. With our expected top line growth and continued focus on delivering cost savings commitments, we expect to improve margins by approximately 100 basis points for the total company.

Turning to operating EPS, we expect to deliver between $1.45 and $1.55 per share which would represent a 5% improvement using the midpoint over 2019. We have provided detailed modeling guidance in the appendix of our presentation.

Now as it relates to key assumptions incorporated into our guidance Slide 15 provides more detail. Starting with above-market growth, 2020 expectations are led by the recovery to normalized conditions and planted area in the North America market. We are assuming roughly 11 million acres return with about 2/3 going to soybeans. We will update our assumptions when market data is available as part of the March prospective planting estimates published by the USDA.

On pricing, we are confident we will realize gains in the low single digits for corn globally. This is a function of the technology we offer customers and the value it creates in the market. In North America, we expect pricing lift in corn due to improved mix primarily from the launch of Qrome and proprietary seed treatment offerings.

In soybeans, 2020 will be a continuation of 2019 in terms of price competitiveness. We expect these trends to potentially amplify this upcoming year and believe soybean prices in North America will be an approximate $50 million headwind on operating EBITDA year over year.

In Crop Protection, new products will continue to ramp globally as registrations expand. In total, we expect growth from new product sales in 2020 to be approximately $250 million.

Turning to cost, we remain committed and fully expect to deliver on the incremental $200 million in merger-related synergies. In terms of productivity, we expect to capture approximately $30 million in operating EBITDA improvement in 2020 as we execute against projects that deliver savings.

As part of this, we are considering a restructuring plan that is subject to Board approval. This program represents the necessary actions we need to take as an organization to build on a targeted cost structure that is best in class. We look forward to sharing more details as these plans further develop and we take action.

We expect corporate costs to remain on target at less than 1% of sales. Cost of goods is estimated to have incremental cost of approximately $150 million which includes higher unit costs in Seed from lower yields and increased royalty costs primarily due to the accelerated ramp of Enlist E3 soybeans.

To close, we expect 2020 to be a year of strong sales and earnings improvement in line with our midterm targets and are confident we have appropriately dialed in risks based on uncertainties as we see them today and are fully committed to deliver on the guidance we are providing.

In addition, the organization is focused on maximizing opportunities as market conditions firm and we look to provide updates on those as the year progresses and results materialize.

I'll now turn the call back to Jim.

Jim Collins
Chief Executive Officer

Thanks, Greg. Before we go to Q and A, I wanted to offer a few final comments on a remarkable year. Without a doubt we will remember 2019 as a historic year for our industry and our company. As we look forward I'm encouraged by our accomplishments as we navigated unprecedented market conditions to deliver a solid finish to the year. We've also laid the groundwork to deliver on our commitments going forward.

Now I've said that Corteva is a different kind of agriculture company and part of that difference is how we support our customers and partner with society. The agriculture industry has been facing one of the most challenging periods in history due to weather, trade, and regulatory burdens which have limited access to new innovations and safe and reliable seed and crop protection products.

We are encouraged to see a resolution to the trade dispute with China and the passage of the US MCA. We worked closely with the US government to advocate for more transparent and predictable regulatory approvals as part of the trade resolution with China which helped to secure important approvals for Enlist E3, Qrome and Conkesta. I testified last July in front of the US Senate Finance Committee in support of the USMCA as a vehicle to further expand and modernize North America trade and increase grower and consumer access to innovation. Both trade deals will be positive over the long term for growers and agricultural demand. We feel privileged to use our influence as a public company to drive positive societal impacts. It is our purpose in which the lives of those that produce and those the consume ensuring progress for generations to come. With that I'll turn the call back to Megan.

Megan Britt
Investor Relations Director

Thank you, Jim. Let's move your questions. I'd like to remind you that our cautions on forward-looking statements non-GAAP Measures and pro forma financials apply to both our prepared remarks and the following Q and A. Operator, please provide the Q and A instructions.

Operator

[Operator Instructions] Our first question will come from Joel Jackson with BMO Capital Markets.

Joel Jackson
BMO Capital Markets, Equity Research

You talked about in the past about trying to hit a free cash flow conversion target in 2020 of 50% or maybe a little bit better than 50%. There wasn't anything on the release, the presentation about that prepared remarks today, maybe give an idea of the puts and takes on free cash flow conversion where it might be in 2020 where you might be in 2021? Thanks.

Jim Collins
Chief Executive Officer

Yes great Joel. Obviously, all of that is still coming together and as we close our kind of first full year we're getting new clarity around those numbers. Greg, do you want to share some more specifics?

Greg Friedman
EVP & Chief Financial Officer

Yes thanks Jim. As Jim mentioned, 2019 cash flow was a complex year, with the first half incorporating cash flow elements from our heritage companies, and the second half really represented Corteva's results and that validated our ability to manage effectively our seasonal working capital movements.

So we remain committed to our target of converting more than 50% of our operating EBITDA into free cash flow while continuing to grow the top line and improving our margin. Specifically for 2020 we're focused on driving working capital productivity that will translate into cash flow improvement in a year where our business is growing. And also you'll notice in our guide our capital expenses are lower by roughly $100 million than the prior year at the midpoint which is consistent with our commitment to manage capital.

And 2020 as I mentioned will be the first year that we'll have standalone cash flows without discontinued operation and spend related uses of cash. So we'll continue to provide updates on our progress on free cash flow conversion for 2020 and throughout the year.

Operator

Our next question will come from David Begleiter with Deutsche Bank.

David Begleiter
Deutsche Bank AG, Research Division

Thank you, Jim. Just on the soybean price headwind I think before you were looking at perhaps soybean price mix to be flat in North America with priced down mix up maybe 2% each. Now I think we're looking at pricing and soybeans to be down maybe 5% or more. One, is that correct and two what caused the change or the more severe pricing headwind in North America?

Jim Collins
Chief Executive Officer

Yes great David, thanks for the question. You're right we do expect our soybean pricing primarily in North America to be down kind of low single digits. And it is a direct response to kind of the market competitiveness that's going on and the aggressiveness that is out there in the market. It is early and looking early in the invoicing process for soybeans. And -- we're taking a very selective approach to how we respond to that. And Tim, you're a lot closer to this on a day to day basis. Anything else you would highlight?

Tim Glenn
EVP & Chief Commercial Officer

Yes, Jim, I would -- I'd highlight that we -- very strong performance in our soybean product line, especially Roundup Ready 2 Xtend portfolio, and we did come out with the expectation of being flat. The year started, where our largest competitor in the Roundup Ready 2 Xtend segment came out of the door by taking their prices down low single digits. So that was kind of the environment we entered the season in. And I think our value proposition and our performance advantage and service is holding up well. But it's important to know that we need to take this $50 million and use it on a very selective basis that kind of shore up our position. So this is not a broad price adjustment, it really is a very specific competitive response, and we could manage this on a customer-by-customer basis. So just to give you some idea that $50 million really represents somewhere less than 0.5% price adjustment across that business. So it is very specific, very targeted and I think it's really important that we use that to shore up our position in what is a very highly competitive marketplace.

Jim Collins
Chief Executive Officer

Dave, I would just add, as I step back and think -- we think about overall pricing, we always put that in the context of 3 areas. The market backdrop is one of them. And I think we've dealt with that pretty well globally, understanding what our customers are facing. We always put that in the context of our product performance. And I think we've got about the best lineup in the marketplace from a performance perspective, so we're going to continue to price for the value that we deliver. And the third element that Tim mentioned is the competitive response out there. And so it really is, we're focused on one region and really one product right now. And everywhere else in the world, I'd say, across the board, I feel really good about where we are.

Operator

Next, we'll hear from Vincent Andrews with Morgan Stanley.

Vincent Andrews
Morgan Stanley Research Division

Jim, if I could just ask you on the Enlist rollout that you expect, when do you think you'll have Enlist and Pioneer germplasm? And then when you -- as you do this, can you help us understand sort of the SKU complexity and maybe inventory management decisions you're going to have to make? And is this going to impact working capital at all?

Jim Collins
Chief Executive Officer

Yes. Great. Vincent, thanks for the question. From the beginning of the creation of Corteva, we've talked about creating more choices in the marketplace. And so we're very excited about the announcement that we put out today about our plans to accelerate the ramp-up of Enlist. I think about that ramp-up over the next 5 years would be kind of the time frame where we would expect to get to peak penetration, and it's about a commitment that we're making to the technology and towards that longer-term kind of proprietary trait and brand strategy that we've been talking to you about. So a real big proof point here today that we're on that path.

The other thing to remember as we talk about Enlist, it is a system. It includes branded seed sales. So you're right, there's a Pioneer brand element to this, but also our other multi brands. And maybe I'll have

Rajan share a little more about that around how we're going to manage kind of through the inventory cycle that you were asking about.

Remember, this also gives us an out-licensing opportunity, so there's income and revenue from out-licensing. And it's part of that royalty improvement path that we've talked about.

So with that, Rajan, we have a project team up and running. We've got a detailed plan over the next 3 to 5 years to really manage all of those moving parts. Do you want to share a little more of the detail there?

Rajan Gajaria
EVP, Business Platforms

Absolutely. Thanks, again, for the question. Just let's start talking about inventory. I think inventory management is a key area of focus for us from a Seed productivity standpoint, and we have got a lot of activities initiated as we transition platform. We start really with no carryover from Enlist into our germplasm. So we've got a very robust plan, so you should not expect an increase in inventory. We will continue to work with getting the best Pioneer germplasm with the Enlist trait in this. We're already launching Enlist in the Pioneer brand and with our multichannel brands this year. So we've got a very robust inventory management plan, which will ensure that the transition doesn't result any increase in inventory. So thank you for the question.

Operator

We'll go next to Jonas Oxgaard with Bernstein.

Jonas Oxgaard
Sanford C. Bernstein & Co., LLC, Research Division

I was hoping to talk a little bit about the value of Conkesta. What kind of premium you're hoping market share and ramp? And also what happens to Conkesta if Bayer loses the patent dispute on Intacta they're fighting right now?

Jim Collins
Chief Executive Officer

All right. Thanks, Jonas. You're right. We're very excited to have recently received the China approval that I mentioned. We'll have that opportunity to stack Conkesta with E3 for something -- for a product in the Brazil market that we believe will be differentiated, and it's, again, one more step towards that trait independence that we have talked about.

We need still a little bit of time for that product to kind of be ready for the full launch in Brazil. One of the things we're waiting on is EU approval for the stack. We've submitted, and we anticipate that this time in 2021 or so, we'll get those approvals. We also have to go through the same process that we went through on Enlist around the breeding plan. Accelerate the introgression of that trait into our background germplasm and that process kind of starts now. So earliest commercialization could be the latter part 2021, and it gives us a real opportunity to drive new market share. Our share in soybeans in Brazil is kind of in the low single-digit range here today. So Rajan anything else you would add?

Rajan Gajaria
EVP, Business Platforms

Yes, I think just to add on the question, Jonas, about Intacta. We are watching that closely. But really, it comes back to a value proposition for the growers. We feel very confident about the value proposition that Conkesta will bring to the marketplace. The Brazilian farmers historically have been always willing to pay for the right technology, which we bring there. And from a Conkesta perspective, we are very confident that we should be able to extract value for the technology that we are bringing there for them. So looking forward to a rapid ramp-up of Conkesta.

Operator

Our next question will come from Jeff Zekauskas with JP Morgan.

Jeffrey Zekauskas
JP Morgan Chase & Co., Research Division

On Page 4 in your press release in your Crop Protection area, you have good growth in your major subsegments. But in your other category, I think you go from $155 million in revenues to $70 million and for the year from $382 million to $253 million. What's behind that decrease and because the decrease is so large, has it come to an end, so that whatever is going on in that category will change for the better in 2020? That's the base case.

Jim Collins
Chief Executive Officer

Thanks, Jeff, for the question. You're right. That category covers a number of other -- of our other products in the marketplace. And as part of our portfolio work and we talk about our best-owner mindset, you see we began to rationalize pieces of those portfolios. And some of those products would have been in there with revenue, but very, very low margins or contributions to earnings. Rajan, anything else you'd share about that category?

Rajan Gajaria
EVP, Business Platforms

I think just building on what you said, I think on the other category, there are products. Sometimes, we have third-party products, et cetera, that did not necessarily fit there. So we continue to reduce our sales in some of those products, which have no impact on us. There's also some categories, which is like a catch-all where you have a miscellaneous bucket as we are working through our systems to see what that is. So as that category reduces, I think the key message, Jeff, back to you is that we continue to expect a rapid ramp-up of our products as they move forward. There is a 30 basis point margin expansion in Crop Protection and that is all a reflection of how we are managing our portfolio actively. So feel very good about the commitment we have made of 2% to 3% above market growth, which is going to be led by rapid ramp-up of a lot of new technologies that cuts across all the segments. So no concerns there.

Operator

Our next question will come from John Roberts with UBS.

John Roberts
UBS Investment Bank, Research Division

Is Asia primarily a Northern or Southern Hemisphere market for you? I should know that but I don't. I don't know whether this quarter and it was down meaningfully is representative? Or is it seasonally low? And what's going on in there to cause that decline, especially in the Crop Protection chemical area?

Jim Collins
Chief Executive Officer

Yes. John, thanks for the question. It primarily is a second half market for us on a calendar year basis, which we kind of do grew but with the Southern Hemisphere-type performance. So I don't know, Tim, you want to share more specifics about what happened this year?

Tim Glenn
EVP & Chief Commercial Officer

Yes. I think Asia, we've had several years of very strong growth, and we actually have business that transpires over the course of the year. So it's hard to call it first or second, it really is a seasonal business, and you have multiple seasons in different markets, so we actually do play in all parts. And on the year, we did see overall growth in the region and growth in both Seed and Crop Protection and continued strength in particular in the insecticide segment.

So I think what hit us as we came through the year and maybe why we took a little bit off the top was, you talk about the extended impact of the drought in Australia, that is significant. And we also had periodic droughts over the course of the season, especially in the Albion countries. So think Indonesia, especially and at one point, we did have a typhoon in the Philippines, and all those things do impact the seasonal business that we have. So it's not quite as I guess is tied to the calendar as we would have in another market. So it does play a little bit Northern Hemisphere, little bit Southern Hemisphere, but throughout the year. So again, I think the highlight is we grew nicely in both Seed and Crop Protection, 3% overall in Crop Protection for the year. And again, double-digit growth in our insecticide portfolio, which, again, is capped by our ability to supply those markets. So we're very satisfied. We believe we did outperformed the market again, and we continue to have strong expectations for our business in Asia.

Jim Collins
Chief Executive Officer

Yes. A number of our new products that we're launching have real utility as well as you've heard us talk about the insecticide expansions that we're making to continue to supply the Spinosyn products, supply constraints that will really benefit Asia-Pacific as we go forward as well.

Operator

Our next question will come from PJ Juvekar with Citi.

P.J. Juvekar
Citigroup Inc, Research Division

Yes hi. Can you hear me?

Jim Collins
Chief Executive Officer

Yes.

P.J. Juvekar
Citigroup Inc, Research Division

So Jim, you have a lot of levers to pull in 2020. You have new products like Enlist E3 that will be on 20% of acres, Conkesta, Qrome, you have new products in Crop Protection, you have cost cutting, you're addressing new markets. So when you look at all these levers, what are the most important levers for you in 2020 that could create potential upside? And then what are the big risks for you in 2020?

Jim Collins
Chief Executive Officer

Great. P.J., thanks for the question. When I think about the other -- the key other drivers of additional upsides to the plan that we have laid out, I think one of the areas would be pricing. We're basically priced through the first half with offerings that we have out there in the market. There'll be small opportunities here and there to make adjustments. But that second half pricing opportunity is ahead of us. And as markets unfold, we'll certainly have a very, very close eye on that.

I think the second upside area revolves around route to the market changes that we've been making in the U.S., the multichannel and multi-brand opportunities that you have there. And then in places like Eastern Europe, where we launched the more direct approach and continuing to penetrate in Latin America. That's about driving share and margin going forward.

And then finally, I think about the cost category, we're clearly laser-focused on continuing to drive productivity. We're seeing that show up. You'll see a good evidence of that in the fourth quarter. We're carrying great momentum going into the year. So we have a base plan, but with our Execute to Win initiatives, we've got 20,000 employees now all around the world, thinking like owners and bringing up ideas every single day about how to continue to improve productivity. So this would be another area where we're going to keep driving.

Operator

We'll go next to Duffy Fischer with Barclays.

Duffy Fischer
Barclays Bank PLC, Research Division

Three questions around Enlist. So Tim talked about your big Roundup Ready 2 Xtend customer cutting price. Does Enlist have to match that in the market or can it move to more of a premium? Second, Greg talked about royalty cost increasing as you're ramping the Enlist trait. I think that surprises most people because you own the Enlist trait. So I think most people would have thought that was kind of a free onboard. So can you talk about the mechanics of why the COGS increases as that goes up? And then your bump from 10% to 20% of Enlist this year, how much of that was driven by your own Seed and how much of that was driven by third parties?

Jim Collins
Chief Executive Officer

Great. Duffy, thanks for the question. And you're right. We're -- there are a lot of moving parts with Enlist. We're excited about the announcement and the ability now to talk about it at accelerated pace that we promised you we'd be back to share with you as we close out the year. Why don't I turn it to Tim, and have you talked about the first and the third one, pricing and the improvement from 10% to 20%?

Tim Glenn
EVP & Chief Commercial Officer

Duffy, when I think about Enlist pricing today, I mean this a -- kind of think of this is really our first year of commercial sales, and so there's a tremendous amount of energy. And I wouldn't -- I don't necessarily see Enlist E3 competing head-to-head with Xtend at this point in time. There's a significant presence in the market from multiple brands, selling the product as well as Corteva's brands. And I would say, what you're seeing is some companies are taking a very -- an approach around penetration pricing, really trying to go out there and drive trial and utilization from farmers. And as you can see, it's had a tremendous impact.

So again, I don't see it necessarily going head-to-head with the Xtend technology in the market per se, more about farmers excited to have a choice, a new option in the marketplace. And you're seeing those market dynamics where penetration pricing is really helping to create some strong momentum for adoption.

When you think about the move from 10% to 20%, I think it's a combination of both. We're getting very strong update on E3, particularly in our multichannel business. And obviously, the many other companies who are in the marketplace today are seeing that same level of adoption. So I think it's broad and really reflects positive energy from farmers, from retail channel and other Seed companies for having that new choice, that new option available. So it's great to see that farmer interest really translate into orders at this point.

Jim Collins
Chief Executive Officer

And then the other part of your question, Duffy, is, yes, there are some short-term financial implications of the decision that we've made, especially in the royalty area. We fully have dialed those into the plan that we have, the guidance we have. But Greg, you want to share a little more detail around that?

Greg Friedman
EVP & Chief Financial Officer

Absolutely. Let me clarify a little bit that the royalty that's increasing is on the Xtend portfolio. So our 2020 royalty costs are expected to increase, as you mentioned, by $50 million. And this change, by the way, does not have a cash impact. This is related to a change for the rate at which we recognize per unit royalty expense for Roundup Ready 2 Xtend. And this will require that we report per unit royalty expense associated with the Roundup Ready 2 Xtend at the current rate rather than the average royalty rate over the life of the established contracts since inception. So there's no impact to cash, as I mentioned, associated with this change. I'll also mention that there is a nonoperating accelerated amortization expense associated with the prepaid royalties that we have recorded on our balance sheet.

Jim Collins
Chief Executive Officer

Great.

Operator

We'll go next to Don Carson with Susquehanna.

Don Carson
Susquehanna Financial Group, LLLP, Research Division

Yes, a question on the current EBITDA walk versus what you've talked about in the past. So as I see it, you're about $180 million lower on your EBITDA outlook. Is that all due to headwinds? I mean in the past, you just talked about perhaps $100 million of headwinds. In 2020 now, as I added up, you get about $250 million. And specifically, you used to talk about a $250 million benefit in 2020 from normalized North American market conditions. Is that still part of your assumption and you also used to have a $100 million benefit from new product growth. Is that now higher given some of these accelerations you're making?

Jim Collins
Chief Executive Officer

Great Don. Thanks for the question. As we built this 2020 plan, clearly it's aligned with our midterm guidance that we've been out talking about. So this plan is absolutely aligned with those – with that new term. We've put a plan together where we de-risked. We've got a lot of confidence in this plan and we've got an opportunity as you heard a minute ago to drive for some upsides going forward. So I'm confident that we've appropriately considered the uncertainties as we see them today.

And then the plan is consistent with some of the items that we have previously shared before. And I – the two broad categories there's a number of growth items, the North American recovery is in there. The synergies and productivity are in there and the new product portfolio kind of driving forward so all very consistent with what we shared the past.

We've anticipated some headwinds, many of these very consistent with what we've also mentioned around soybean prices, higher COGS some investments that we're making to drive growth. So I don't know Greg do you want to maybe share a little more detail around those categories?

Greg Friedman
EVP & Chief Financial Officer

Yes. Don, thank you for the question. And I'll just walk you through the numbers very quickly here. So you mentioned the North America market return of $250 million due to normalized weather. We are positioned and ready to realize this effective rebound of the market year-over-year. New products, we're anticipating $100 million of margin improvement as we bring new technology to market. We talked about synergies and productivity. We're prepared and executing on projects to deliver that $230 million that we talked about. You also mentioned headwinds of about $100 million. Those do exist, and they're primarily related to lower yields than anticipated and increased commodity prices. That's all confirming information that we previously provided.

So what's new? A couple of things here. We talked about our global corn price increasing. We've got $100 million of global corn price that we dialed in here. This is proof of the value of the innovation that we're delivering to the market and our ability to price for that value. We did talk about a $50 million potential reduction in soybean price that's dialed in as well. We also mentioned a $50 million cost for implementing our ERP system, and then the royalty element that we just discussed of another $50 million.

Additionally, we had some portfolio actions in the fourth quarter as we executed our best-owner strategy. Those elements are not recurring. So we're not going to see those come back.

And then finally, as Jim mentioned, investments in R&D and selling to bring our new products to market.

Operator

Thank you. And our last question will come from Adam Samuelson with Goldman Sachs.

Adam Samuelson
Goldman Sachs Group Inc., Research Division

Morning folks. Can you hear me?

Jim Collins
Chief Executive Officer

Yes. Yes, we can hear you now Adam.

Adam Samuelson
Goldman Sachs Group Inc., Research Division

So a lot of ground's been covered here this morning. I hope maybe just to recap the 100 basis points of anticipated margin improvement in 2020. Can you walk through the key kind of components, the pluses and the minuses there? And kind of where opportunities may exist or risks exist in your mind around that anticipated margin improvement?

Jim Collins
Chief Executive Officer

Great. Thanks, Adam. Clearly, a lot of that margin improvement is consistent with the new product launches that we've been driving, bringing new technology. So that would be one aspect.

Second, you hear the strength of our corn portfolio globally and the pricing that we're really driving in that portfolio, and that's having a nice lift, kind of coupled with the new products, Qrome was an example that Tim mentioned earlier.

And then finally, we continue to drive productivity. We've got the productivity related to the merger, the synergies that continue to flow through and finishing those out over the next few years. And then the new productivity that we're driving as a result of our Execute to Win work. So that -- those are probably the 3 major drivers.

Megan Britt
Investor Relations Director

Okay I think that’s going to conclude actually the Q and A for the call today. We really appreciate everyone who joined the call. And thank you so much.

Operator

That does conclude today’s conference. Thank you all for your participation. You may now disconnect.