02-Feb-2023

Corteva, Inc. (CTVA)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Please stand by. Good day, and welcome to the Corteva 4Q 2022 Earnings Call. Today's

conference is being recorded. At this time, I would like to turn the conference over to Kim Booth,

Vice President of Investor Relations. Please go ahead.

Kimberly Booth
Vice President-Investor Relations, Corteva, Inc.

Good morning, and welcome to Corteva's fourth quarter and full year 2022 earnings conference call. Our prepared remarks today will be led by Chuck Magro, Chief Executive Officer; and Dave Anderson,

Executive Vice President and Chief Financial Officer. Additionally, Tim Glenn, Executive Vice President-Seed Business Unit; and Robert King, Executive Vice President-Crop Protection Business Unit, will join the Q&A session.

We have prepared the presentation slides to supplement our remarks during this call, which are posted on the Investor Relations section of the Corteva website and through the link to our webcast. During this call, we will make forward-looking statements which are our expectations about the future. These statements are based on 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 in the Risk Factors 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 pleasure to turn the call over to Chuck.

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

Thanks, Kim. Good morning and thanks for joining It is now pleasure to turn the call over to Chuck.

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

Thanks Kim, good morning, and thanks for joining us today. I hope everyone's years off to a great start. There are several key messages I'd like to share with you today, including our strong 2022 performance, an overview of the market fundamentals and an update on our value creation plan with a closer look at what's ahead for 2023.

Corteva executed well amidst a dynamic market environment, delivering double digit sales and operating EBITDA growth, as well as over 200 basis points in margin expansion. Enlist E3 soybeans reached about 45% market penetration in the US and new product sales and crop protection reached over $1.9 billion for the full year, an increase of more than 30% over prior year.

On capital deployment, we returned more than $1.4 billion to shareholders via dividends and share repurchases for the full year. Our 2022 results support the value creation plan presented at Investor Day, where we outlined a framework to achieve $4.4 billion of EBITDA by 2025, with a margin range of 21% to 23%. And we're on track to do just that. The framework is simple and straightforward and hinges upon four key elements, portfolio simplification, royalty neutrality, product mix and operational improvements. The strategic and operational actions implemented since we announced the plan show that we are already making progress on accelerating our performance and we were even able to achieve some of that value in 2022.

We remain committed to our value creation plan and 2023 is going to be a year largely focused on execution. As a reminder, a critical part of our refined strategy involves increasing investment in R&D. We're focused on delivering greater value to farmers through more differentiated and sustainably advantaged solutions. And leveraging our pipeline to drive advancements in global food security and climate change.

On the M&A front, we announced our intent to acquire Symborg and Stoller two biological acquisitions, which are both set to close in the first half of 2023. These acquisitions reinforce our commitment to providing farmers with environmentally friendly, sustainable tools, with proven effectiveness that complement evolving farming practices and help them meet changing market expectations. As communicated previously, we expect that biologicals will be the fastest growing segment in the crop protection industry over the next decade.

Turning to the outlook, we enter 2023, well-positioned with best-in-class technologies to continue to deliver market leading value for our customers as we tilt our portfolio towards our differentiated offerings. This is a big step change year for our Enlist platform. We're expecting E3, US soybean market penetration in the mid-50s and a royalty reduction benefit of over $100 million.

Organic sales of new crop protection products, including our Enlist herbicide are expected to grow by an additional 20% and we're on track to cross a $1 billion annual sales with our Spinosyn franchise. More broadly, we expect that favorable pricing and mix, in addition to productivity and restructuring benefits, will continue to outpace headwinds associated with cost inflation. We will also continue to monitor the effects of currency, which we believe will be a headwind this year. As a result, for 2023, we expect to deliver 5% sales growth in between $3.4 billion and $3.6 billion in operating EBITDA, translating into yet another year of impressive margin expansion.

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Now let spend a few minutes on the market outlook on slide 5. Market fundamentals remained constructive as we enter 2023. Global grain and oilseeds stocks are tight due to last year's below trend yields, which were impacted by dry weather in the Northern Hemisphere and the war in Ukraine. Crop prices, which remained well above historic averages are supported by tight supply demand fundamentals globally. Farmers are financially healthy with strong liquidity and they will continue to prioritize yield to meet market demand and offset inflationary pressures.

Farm income is expected to be one of the largest ever, albeit below the record achieved in 2022. And demand for corn and soybean oil is expected to grow in 2023, supported by strong energy prices and policy adjustments focusing on low carbon energy sources. Crop area is forecasted to be up in most major crop producing regions in 2023. The USDA gave a January update indicating US planted area is estimated to be 91 million acres for corn and 89 million acres for soybeans, both showing increases versus 2022.

We continue to monitor the effects of weather around the globe, including the drought conditions in Argentina. Brazil is projecting that national grain output for the 2022, 2023 crop season will be a new record translating to low to mid-single digit growth. We expect these positive market conditions to continue throughout the year and could extend well past 2023, depending on supply demand dynamics, which is consistent with our previous messaging that global grains and oilseed inventories need to be rebuilt over at least two years.

And with that, let me turn it over to Dave to provide details on our financial performance as well as updates on the 2023 outlook.

David John Anderson

Chief Financial Officer & Executive Vice President, Corteva, Inc.

Thanks, Chuck, and welcome everyone to the call. Let's start on slide 6 which provides the financial results for the quarter and full year. You can see in the table we finished 2022 with another quarter of strong performance, quickly touching on the fourth quarter. Organic sales were up 11% versus prior year, led by Latin America and North America. The strong organic sales translated into earnings of $370 million for the quarter, more than 200 basis points of margin improvement.

Turning to the full year, organic sales grew 15% versus 2021, with broad based pricing and volume gains. Global pricing was up 10% over prior year, with notable gains in both seed and crop protection. Seed volumes were flat due mostly to lower planted area and the US, canola supply constraints and the impact of a Russia exit in EMEA.

Crop protection volume was up 9% for the year, driven by strong demand for new products. These new products delivered over $475 million of sales growth year-over-year, an increase of more than 30%. We delivered $3.2 billion in operating EBITDA for the year, an increase of 25% over the prior year. Pricing, product mix and productivity more than offset higher input costs and currency headwinds. This earnings improvement translated into more than 200 basis points of margin expansion year-over-year, reflecting the strength in execution by our organization.

And as Chuck said, 2022 is an early installment on our multi-year performance goals that we shared with you at Investor Day. So let's now go to slide 7. You can see the broad based growth with strong organic sales gains in every region for the full year 2022. In North America, organic sales were up 10%, driven by Crop Protection on demand for new technology, including Enlist herbicide. Seed volumes were down versus prior year, primarily due to a reduction in US corn acres and supply constraints for canola in Canada. Soybean volumes were up 7%, driven by penetration of Enlist, both seed and Crop Protection delivered pricing gains, with pricing up 6% and 14% respectively.

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In Europe, Middle East and Africa, we delivered 18% organic growth compared to prior year, driven by price and volume gains in both segments. Seed pricing increased 11% and helped to mitigate currency impacts. In Crop Protection, demand remains high for new and differentiated products, driving volume growth at 15% for the year. In the fourth quarter, volumes were muted by approximately $50 million related to the war in Ukraine in our previously announced exit from Russia.

In Latin America, organic sales increased 23%, with notable gains in both price and volume. Pricing increased 16% compared to prior year, driven by our price for value strategy, coupled with increases to offset rising in input costs. Seed volumes increased 4%, with some pressure due to tight supply of corn or Crop Protection volumes increased 10%, driven by demand for new products. Asia-Pacific organic sales were up 9% over prior year on both volume and price gains. Seed organic sales increased 23% on strong price execution in the recovery of corn planted area. Crop Protection volume was down 1% due to wet weather and low pest pressure in certain areas, partially offset by demand for new products.

So with that, let's go to Slide 8 for a summary of 2022 operating EBITDA performance For the full year, operating EBITDA increased approximately $650 million to $3.2 billion. And as it covered on the prior slide, strong customer demand drove broad based organic growth with price volume gains in all regions. And we particularly benefited from the strong finish to the year, including favorable year-over-year performance in our functional spend.

We incurred approximately $1.2 billion of market driven headwinds and other costs over the course of 2022, driven by higher seed commodity costs, crop protection, raw material costs and freight and logistics. We delivered approximately $250 million in productivity savings, which helped to partially offset these headwinds. SG&A as a percent of sales was down more than 230 basis points versus prior year. As we maintained disciplined spending and accelerated execution on certain cost actions. Currency was a $290 million headwind, driven primarily by the euro and other European currencies.

Extending back to performance in 2022 is a result of strong execution by the organization, demonstrating our ability to meet increased customer demand while effectively managing costs through pricing, product mix and productivity.

Turning now to slide 9, I want to provide an update on our full year free cash flow performance. Free cash flow for the year was approximately $270 million compared to over $2 billion in 2021. The year-over-year decrease is driven by higher working capital balances primarily accounts receivable and inventory. Receivables increases were largely due to higher sales, reflecting both volume and pricing. Importantly, DSO metrics remained healthy, benefiting from the strength of former incomes and also customer collections. In the case of inventory you'll recall we had significant drawdowns in 2020 and 2021, particularly in crop protection. This inventory drawdown was driven by significant customer demand in the face of supply chain challenges, product availability and shipping and logistics issues. This set of challenges was obviously not unique to Corteva and affected broader industry.

In 2022 inventory increases reflect a rebuild of safety stocks to support growth, higher input and commodity costs, as well as the impact from market volatility. We have now been able to rebuild our inventory levels. We believe we have about the right balances at this time. Due to supply chain dynamics and their impact on working capital over the last few years it's meaningful to look at the free cash flow to EBITDA conversion over the most recent two years rather than either year in isolation. Free cash flow conversion averaged 42% in the two-year period from 2021 to 2022. In 2022 we returned $1.4 billion to shareholders, including $1 billion in share repurchases, a clear commitment to deliver value for our shareholders.

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Our pension liability continues to be well-managed, despite volatility in both equity and bond markets. As of year-end the funded status of the US plan was 92% and we do not anticipate cash contributions to the US plan in either 2023 or 2024. It's now transitioned to a discussion on the guidance for 2023 on slide 10 we expect net sales to be in the range of $18.1 billion and $18.4 billion, representing 5% growth at the midpoint, driven by pricing and strong customer demand for differentiated best-in-class technology and increased US planted area. Keep in mind that this growth is muted by approximately $600 million of product and geographic exits.

2023 operating EBITDA is expected to be in the range of $3.4 billion and $3.6 billion, a 9% improvement over prior year at the midpoint. Margins are also expected to improve with pricing, mix and productivity actions more than offsetting further cost inflation and currency headwinds, translating to roughly 70 basis points of improvement at the midpoint.

Operating EPS is expected to be in the range of $2.70 and $2.90 per share, an increase of 5% at the midpoint, which reflects earnings growth, lower average share count partially offset by higher effective tax rate and interest expense. We expect our 2023 tax rate to be in the range of 22% to 24%, an increase from the 2022 rate of 20.6%, largely driven by US tax law changes, impacting foreign tax credits and the treatment of R&D expenses.

Higher interest expense is driven by higher borrowing costs and higher debt balances. As you know, we carry significant commercial paper balances throughout most of the year to fund cash needs. Our 2023 guide's assumptions include a higher average interest rate on the commercial paper balances, as well as higher borrowing to finance growth, including the biologicals acquisitions.

We expect that free cash flow will be in the range of $1.1 billion to $1.3 billion with higher earnings partially offset by the higher cash taxes and higher interest expense. At the midpoint, this translates into a free cash flow to EBITDA conversion rate of roughly 34% or approximately 40% over the last three year period. On Slide 11, I want to remind you of the value creation framework we laid out in September to accelerate our performance and deliver greater value to shareholders. The growth targets we presented included a 2025 operating EBTIDA of $4.4 billion or 22% margin at the midpoint. This slide includes our 2025 performance targets from Investor Day, and it also reflects our actual 2022 performance and today's guidance for 2023. Execution on our strategic decisions, including focusing on core crops and markets, pricing for value, being disciplined in costs is driving margin expansion while also enabling increased R&D investment. Again, our performance in 2022 was a major installment on the path to our 2025 financial targets, coupled with our guidance for 2023, we're confident we're on track to deliver those targets.

So let's now go to Slide 12 to discuss the operating EBITDA bridge for 2023. You can see the pricing of 2023 will be in the mid-single digit range, which will more than offset the impact from higher commodity costs and raw material inflation increased planted area in the US and demand for our best-in-class technology, including continued penetration of unless E3 soybeans are expected to drive volume increases in North America. Latin America sea volumes are expected to be up for the full year with the increase weighted to the second half due to supply constrains early in the year from last season's der weather. Volume growth in North America and Latin America will be partially offset in EMEA driven by lower expected corn planted area and an approximate $200 million impact from our decision to exit Russia.

Demand remains strong for differentiated technology, which will drive increased volume and crop protection. Sales of new crop protection products will add approximately $300 million of incremental organic revenue, we'll benefit from the ongoing Spinosyn's capacity expansion, as we expect the franchise to generate more than $1 billion in sales in 2023.

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Volume growth will be partially offset by the approximately $400 million impact from our previously discussed product exits, including commodity glyphosate. And while we're seeing some slowing in the rate of inflation as well as overall supply chain improvements. The operating environment is still dynamic. For the full year of 2023, we expect approximately 6% increase in market driven cost headwinds, including higher commodity prices, input costs in freight and logistics. This impact should be largely weighted to the first half of the year, reflecting seed commodity costs impact and the sell through of higher cost inventory.

This translates into high single digit rate of inflation in the first half of the year, dropping down to low single digit in the second half. In addition to these market driven costs, we expect additional headwinds on other cost of sales. Importantly, the outlook includes approximately $100 million reduction in royalty expense and an additional $300 million of productivity and restructuring benefits. Another key element of our cost structure and consistent with our multiyear plan, we are increasing our investment in R&D in 2023.

Regarding currency, we expect continued headwinds. Our assumption is for a weaker exchange rate relative to the dollar for several key currencies, including the Brazilian Real, the Euro and the Canadian dollar. We estimate 3% to 4% currency headwind on revenues and low-double digit headwind on EBITDA.

Now, it's important to note the guidance does not include the impact of the biologicals acquisitions, which are expected to close in the first half of the year. We'll provide an update for 2023 to include these acquisitions in the quarter in which they close.

Let's now go to Slide 13 and summarize the key takeaways. We had great performance in 2022 with 15% growth in organic sales, more than 200 basis points of margin improvement amidst a dynamic operating environment. We've favorable momentum and we'll carry that into 2023 and expect another year of strong performance and growth supporting our 2025 financial targets.

And finally, we're investing in innovation and the future of Corteva. We remain committed to a disciplined capital allocation strategy that is a balance of investing for growth or returning cash to shareholders. Since 2019, our capital deployment was heavily weighted towards returning cash to shareholders as we returned more than $3.6 billion through share repurchases in dividends.

In 2023, against the backdrop of M&A, this distribution will be tilted towards investing for growth as we close on the previously announced biologicals acquisitions in the first half of the year.

And with that, let me turn it over to Kim.

Unverified Participant

Thank you, 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.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Please limit yourself to one question also. Again [Operator Instructions] Our first question will come from Vincent Andrews with Morgan Stanley.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning, everyone. I'm wondering if I could ask on the value creation program, just it looks like there probably was some upside from that in the fourth quarter versus expectations, just, just given how strong the quarter came in and what, what's normally a very weak quarter. Are you just finding that you're getting stuff done faster? Are you finding more stuff to do or is it both?

A

Yeah. Good morning, Vincent. That's right. So look when we, we look at the performance for 2022, what I'd start with is, you know we're very pleased with the year and we had a very strong year across the board and really focused on execution. Obviously, the market fundamentals are robust. We've said that we believe that conditions are going to be constructive through 2023 and potentially in the 2024, depending on supply demand. And when it comes to the value creation framework, right now, we'd say we're actually a little ahead of the plan and that's really driven by we got after some of the portfolio decisions a little sooner than we thought and we took some of the cost management actions and you can see that hit the bottom line. You know, if you look back to the value creation framework that we've proposed in September, we indicated somewhere between 100 basis points and 150 basis points per year. In 2022, we hit 200 basis points. So there's some acceleration there. We are finding new opportunities every day. So we'll give the market an update at the right time. But what I'd say right now is we're very comfortable with the $4.4 billion and the 21% to 23% margins by 2025. And 2022, sort of a reflection of that. And with a bit of an acceleration from some of the actions we took a little faster than we thought we could get after.

Operator: And our next question will come from David Begleiter with Deutsche Bank.

Q

Thank you. Good morning, Chuck. On 2023 guidance, the low end $3.4 billion. I guess the question is why it is so low given the strong tailwinds we're seeing. I understand costs and FX headwinds, but how conservative is that low end of the guidance range, in your view?

A

Yeah, good morning. Let me give you the high level view that I have and then I'll ask Dave to talk about, well, the low end, but also the top end of the guidance range, because there's a pathway to the top end as well. So first of all, what we'd say is the guidance range obviously fits nicely within the 2025 value creation framework. And as I mentioned already, we're on track and a little ahead of schedule. I'd say that the guidance range also reflects some of the headwinds from the portfolio changes. So this is a big year of finalizing a lot of the country exits in the AI rationalization.

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Last year we were pretty aggressive as I mentioned, we did over a dozen country exits last year alone and we have a similar amount lined up for 2023.

So there'll be a lot of the portfolio decisions made in this year. And then finally, from a guidance perspective, there's a bit of a disconnect and Dave will explain it in detail. We obviously included the higher interest rates to finance some of the growth, particularly around Stoller and Symborg. But we did not include any of the earnings contribution from those acquisitions. So there's a bit of a mix there from a guidance perspective. Now, when you think about the guidance range I'll have Dave talk about the specifics. Go ahead, Dave.

A

Sure. Yeah. So good morning, by the way. And if you think about the high end of the guidance versus the midpoint of the guidance clearly more corn acres in the US would be a positive, favorable cost realization of price would be a positive. And then we're also looking at some upside potential in terms of Brazil. To your point on the bottom end, it really still is very much a focus on our part on currency impacts and also just the dynamics in terms of the rate of inflation, which continues to be somewhat dynamic. We're seeing positives, early indications on that. But that continues to be something we're very, very focused on. So you can think of that. And then, of course, in this business, there's always Dave as you know, weather impacts that we would consider. Chuck mentioned Symborg and Stoller. Our expectation is run rate for 2022 on those businesses in terms of EBITDA collectively is in the range of $120 million. So depending upon the time of the close and Chuck, you may want to comment a little bit about that you could think of something like two thirds of that coming through and actually benefiting us.

And that reflects the fact, as you know Stoller we've been Latin America focus that would be towards the end of the year. Symborg really, Europe. Some of that – some of that performance in earnings we won't really capture in 2023, but in 2024, in terms of run rate we're going to see some very attractive contribution from both of those businesses, which will be very additive, both obviously revenue additive, EBITDA and EBITDA margin additive for the company. If you want to talk a little bit about timing.

A

Yeah. David so if you recall in the prepared remarks we mentioned closing the deal in the first half. Well, we've got a bit more of an update. We've seen some of the regulatory filings come in. So what we can say right now is that we received all the pre closing regulatory approvals that are required for Symborg. So that's very good news and we expect to be in a similar position with the Stoller transaction very soon. So now we're thinking that we'll be able to close both of these acquisitions in Q1. So a little earlier than we thought. And of course good news as Dave indicated, these are going to be good earnings contributions and will be accretive to EBITDA and certainly even accretive to margins. And as we look at it, you know, we're pretty excited that this is a biologicals platform now that we'll be able to continue to grow. So we've got high aspirations for this part of our portfolio and it looks like we'll be able to close both of these transactions in Q1.

Operator: Thank you. And our next question will come from Kevin McCarthy with Vertical Research Partners.

Q

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Good morning. This is Corean for Kevin. Coming up with the 2023 free cash flow range of $1.1 billion to $1.3 billion. What are your assumptions for working capital in 2023?

A

You know, essentially what we've assumed particularly very importantly good question around inventory is our inventory levels in terms of inventory to revenue or inventory to sales be basically constant. So in other words, that would end up then being inventory would be a contribution to change on the change would be a contribution to cash in 2023. Two of the key items beyond working capital, the very important and somewhat embedded in my prepared remarks earlier on was the expectation for higher interest expense, obviously both amount of debt, but also the rate on that debt in 2023 that'll flow through as a cash use for incrementally 2023 compared to 2022.

And then the other one is higher cash taxes. That's predominantly related to the R&D tax credit phenomena, if you will, the capitalization, amortization is opposed to expense benefit that we've been receiving. We're not unique in terms of that challenge. And of course, that's something that's going to continue to be very much the focus of legislative lobbying, because it's really, we think, you know, highly punitive. So it's really working capital actually ending up net of increase in receivables being a source of cash and then higher usage of cash on both interest and on the tax side.

A

And Dave, maybe it's a bit more instructive to talk a little bit about working capital, specifically the inventory. If you go back to 2020 and 2021, obviously the entire industry, Corteva included, had significant supply chain challenges right across the board. We saw raw material shortages, logistics challenges. And as a result, we were forced to draw down our inventories to what we would consider to be unhealthy, unsustainable levels and our service levels for our customers, especially around some of the products that are very unique to Corteva. So think about our seed portfolio. But also think about the Enlist platform. These service levels became unacceptable. So last year we saw an opportunity to rebuild those inventories. We feel now that we've got the right service levels in place to support our customers. And don't forget, the global CP market is expected to grow mid-single digits this year. So we're preparing for another good year in agriculture we're preparing for another good year of growth and we feel we've got the service levels now to support our customers. Very important.

Operator: And our next question will come from Joel Jackson with BMO Capital.

Q

Hi. Good morning. Just want to ask a question on free cash flow conversion. So I think you've been targeting about 50%. You talked about getting a 42% average across 2021 and 2022. Can you talk about why the free cash flow conversion is a little bit lower in 2023? And then, thinking about that question and thinking about timing of acquisitions this year, what kind of share buyback capacity do you have this year?

A

Sure Joel. The sort of the short answer on the free cash flow conversion for 2023 relates to the points I made in the previous question, which really have to do with the higher on a year-over-year basis, higher cash taxes and

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higher interest. There's some – there's some other factors in there. But those are the those are the biggest components of that. In terms of capital allocation, as you know. And we've really demonstrated that balance in terms of our overall capital allocation with history, if you will, up through 2022, very much, of course, weighted towards returning cash to shareholders. And that was, you know, I think very, very smartly executed during that period of time. 2023 is going to be much more significantly tilted towards growth and specifically M&A with the Stoller and Symborg acquisitions. We anticipate continuing on our share buyback, but that's going to be at a likely will be at a reduced level just given the significance of those acquisitions.

Operator: And our next question will come from Christopher Parkinson with Mizuho.

Q

One of the best success stories I think Corteva in 2022 was just the progress we've made in CBC margins. You know, you laid out some helpful framework in that PowerPoint, but if you could just offer some further color on first of all, just obviously the price cost environments, new product growth, the exit of certain business lines, it seems like things are probably ahead of schedule as it pertains to your longer term margin guidance. So there's any additional framework you could offer them that would be very helpful. Thank you so much.

A

Let me introduce very quickly and then I'll turn it over to Robert for his comments. You're exactly right, Chris. I mean, it's the combination of those things. The focus on differentiated products, new products, what we've been able to do in terms of managing the headwinds associated with, by the way, not only cost inflation in terms of – in terms of material costs or market driven costs, but also currency. It's been a big headwind for both businesses to include crop. So the setup right now, I think for 2023 is positive. The thing to keep in mind, of course, and Chuck mentioned that I mentioned in my prepared remarks is the headwind just the volume headwind that's associated with the product and geographic access, particularly the product access for crop in 2023?

Robert, do you want to talk a little bit about some of the formula?

A

Sure. Yeah, Chris, when you look at 2022, just a quick recap on how do we do it? And, you know, what were some of the key drivers there? They've hit on a few of them, but it really starts out with our strategy around price per value and productivity. We continue to be able to offset inflation in that year of inflation was about 10% as you roll the year up. And yet, we were able to continue to put new technology on the ground and the demand for it continues to grow up. It continues to go up with the growers.

You know, new product growth finished up about 33%, as you've seen. And this is really a good story around that technology that continues to be a pull into the market. So, you know, these types of things with our supply chain becoming more resilient, you know, we delivered nearly 10% more volume last year. These – this will be the continued story into 2023 as we begin to look at, you know, how will we manage margins, what's that look like and how do we get through the year? We're going to continue to follow our price-for-value strategy. We do expect we'll have a little headwinds in the first half of the year for ablation and we'll work with that in productivity that to continue to offset that.

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And then, really what you look at in 2022 is structural changes that we're making. And with the exits that have started, we will finish up. It'll be about 70% done with all of our AI exits in 2023. So 2023 really becomes a transformation year that we begin to change our portfolio and position us for even better margin accretion as we move forward into the future.

Operator: Thank you. And our next question today comes from P.J. Juvekar with Citi.

Q

Hi. Good morning. This is [ph] Patrick Cunningham on for PJ. And cross volumes in the quarter, crop protection were down outside of North America and it seems like fungicides took a pretty big hit. Can you walk us through why the crop volumes were so weak in the quarter? Thank you.

A

Sure. Q4 is one that that played out really in South America for us in Latin America. As you look at the big volumes, we had strong northern, you know, northern hemisphere within list continuing to go -- go to fill tanks and took over a lot of tanks this Q4. But in Latin America, the drought is really bad when it comes to Argentina and southern Brazil. And so the fungicide growth that we typically would see there, we thought we would see didn't come through. It just -- wasn't the demand. And so that's really what the difference was in Q4 when you look at volumes. The other thing that I would mention is roll back to Q4 2021, Brazil had mid mid-20s growth in that quarter alone. And so we had a huge, huge mountain to compare against as well when you begin to look at Q4 versus Q4.

Operator: And we have a question from [ph] Steve Byrne with Bank of America.

Q

Yeah. Thank you very much for the [indiscernible] sitting in for Steve. Just want to ask about the settlement charges you're taking on the [indiscernible] . I think this was the third quarter this year that you took a charge and can -- even but can you start providing a commentary on what to expect next year for the charges and what these as we think about that $7 million this year, what is the cash flow impact from these settlements? Are they and what these as we think about that I think $7 million this year, what is the cash flow impact from these settlements? Are they mostly or future cash flow impacted probably already paid the settlements. How should we think about that?

A

Yeah. This is Dave. So as we know we've really have not provided, cannot provide any kind of forward view. There's just no estimate that's available that would allow us to do that. We do will have an $87 million charge for the full year of 2022. There's just at this time, limited forecast visibility is what that would translate to in terms of 2023. And we've really just not prepared to come on and comment on that in the same way on the cash side. I mean, I think that's very, very much a TBD. We'll obviously update as actuals occur and actuals progress.

Operator: And our next question will come from Frank Mitsch with Fermium Research.

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Q

Yes. Good morning. I wanted to follow up on the crop protection, chemical growth that you saw in new products. Obviously, that was a nice success story for 2022. The original guidance was for $300 million increase in 2022. And you came in at $475 million and you're guiding again for $300 million in 2023. So I'm wondering what went right in 2022 and you know, what could go right in 2023 or what could go wrong in 2023?

A

Frank, thanks. Hopefully more goals, right and wrong in 2023. But as you begin to look at new products, yeah, we had a great year finishing up about $1.9 billion for the year and the sales of those products.

yeah, we had a had a great year finishing up about $1.9 billion for the year and the sales of those products. And you stayed there $475 million increase. The strengths around it really centered around three big molecules that that led this Enlist primarily with the demand that we're we're we're following with [ph] TAM 00:43:36 and the seed. And we're 80-plus-percent at our last estimate now of acres over the top spray with Enlist. Arylex in Latin America or excuse me in Europe was a strong performer as well. And as you know, this herbicide is one that has a growing demand also. And then finally I would say are an insecticide of 00:44:01 was a third one that that was a stand out there the helping us grow this.

When you begin to roll that now forward to 2023, we expect that our new products will continue to see high teens growth. It's going to have three – those three products will be well over $300 million each and total revenue. And the upside there is that it's it's going to depend on more demand from our technology. It's strong. And we don't see a whole lot of downside from the new products, primarily because, farm fundamentals are healthy, growers are sitting on good profits. And in with that, they're trying to maximize value. And to do that, you turn to new technologies to do that. And that's – that's where we come to play in this area.

So, this is a this is a good story that really helps us play out, I guess a proof point of our strategy to build more differentiated portfolio. And these new products are a key piece of that.

A

Yeah, Frank, maybe I'll add one other point. It's not necessarily a new product, but we've got a new Spinosyn franchise capacity that will come into the market in 2023. So beyond what Robert said that will come into the market in 2023. So beyond what Robert said around that existing portfolio, we've got a capacity expansion in one of the most profitable franchises we've got with Spinosyn and that will start to go into the market the new capacity this year. So we're looking forward to good things from that franchise as well.

Operator: And moving to Arun Viswanathan with RBC Capital Markets.

Q

Great. Thanks for taking my question. So just looking at the guidance, it looks like you've noted that the cost headwinds are largely weighted to 1H 2023. Is there any potential for maybe costs to surprise to the downside or upside? How would you kind of look at that? And if so, is the pricing that you have in place sufficient to offset

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some higher costs if there is any possible increase? Or would you be able to enact pricing to offset that? I'm just wondering what drives kind of the lower end of your range there?

A

Maybe I could just introduce and then Tim and Robert, you guys could comment respectively on your business. As we said and you correctly stated it that, you know, the majority of our call it market driven headwinds. So think of that as commodity and input costs as well as freight logistics. The majority of that on a year-over-year basis will occur. About 80% of that in terms of our forecast is going to occur in the first half and we'll see, you know, improvement/relief still. We've got those costs going up, but a much at a much more moderate rate, modest rate in the second half of the year. And the big picture on the pricing is we expect, as we did in 2022, that we'll see seed pricing more than offset those commodity cost, increases and on crop protection, we'll see the ability to cover those costs, by the way, to also offset the currency impacts. And we've built into the guide, the EBITDA approach that I shareed with you earlier. Tim, you want to comment a little bit more about seed?

A

Yeah. Dave You know, on the seed side, I'd say for the first half we have a very good understanding of what our seed costs are. That seed we would have produced last year and so considered in the barn and well understood in terms of the cost that we have there. And we've been live in the marketplace with pricing for really since August in North America. And, you know, given where we're at in the market, you know, we've got great performance, very good demand for our technology. And I would describe our pricing is being well accepted in the marketplace. And again, that's largely driven by good value proposition, our ability to go out there and demonstrate value to our customers.

So North America is in a great spot. We've been alive in Europe for about three months and again understood what our cost position was. And again, pricing, I was in Europe last week and our pricing is holding well in the marketplace and great implementation. You think about exposure for the rest of the year on [ph] seed, Latin America. You know we're still in the field producing our seed in Brazil, especially in but also Argentina. And so we have a little bit more exposure, if you will, in terms of in terms of those costs. But obviously, we're -- we're working hard and we factor that in, I think, to our guide so far. And in terms of pricing, we still have flexibility there. We're not live in the marketplace per se. And so we're going to continue to evaluate, we're out there, we've got a great track record of capturing value in Latin America and, and so we believe we're positioned very well for values, strong value proposition again we've got, you know an excellent track record in terms of, of being able to capture value and in confident that we're going to be able to more than offset what that inflation pressure is. Then in crop protection just to little bit too that is that, you know, we continue to see as I said before, mid-single-digits inflation that they'll continue with us for it'll be heavier in the first half than the second half. But our, our crops for value strategy and productivity will continue to help offset that. So far, we're seeing, you know we're seeing good progress in all of our markets with, with what we're, what we're doing and what we're going to market with. And another thing I'd say is just a comment that, you know one of the, one of the key indicators for us is what's going on, on the generic market and how is pricing holding there. And all the leading generic producers have come out and said the prices were stable for the first half of the year from what they can see so far. And so that that's always a good indicator for us as well as what's price going on there. So we expect we can offset the costs using the same strategies that we've used in the past for, for crop protection.

Operator: And our next question will come from Joshua Spector with UBS.

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Q

Good morning. This is Lucas coming on for Josh. I just wanted to go back to the past for the 2025 target. So looking at your EBITDA for this year, I mean that seems to be progressing pretty [indiscernible] you sort of highlighted why your free cash flow is going to be depressed in the next year. So you're kind of looking at like a mid-30s conversion versus the 55 to 75 target. So could you just kind of help us bridge how that free cash flow is going to converge there towards the target range? And if you see any risk there now, given it's sort of more back weighted versus what's happening with EBITDA?

A

I think I'd just comment that, you know, we've got on a year-over-year basis, obviously. Those additional headwinds, you know, that I mentioned to you. The other thing that I'd mention is that we'll get the cash contribution over time from acquisitions, that's not going to be significant. That'll be important to the overall equation. But the other thing is just the growth, the EBITDA that's going to occur over that period of time. So we also see some quite improvement as we look to more normal patterns in terms of the costs and inflation issues in some of the supply chain issues that we've been dealing with – in the industry, we've been dealing with in general. All of those are going to be able to be contributors towards those – towards the targets that we've talked about.

And by the way, just to reinforce, again, the 2022 performance combined with the 2023 guide is, you know, again, a very important statement we think we're making about the achievement of those 25 numbers.

A

Yeah, Dave, maybe just a couple more minutes on this topic. Look, when Dave and I look at the free cash flow conversion, it is obviously a focus for the company. So if you think about what we've done as an organization, you know, we started with the portfolio and the strategy and then the operating model for Corteva. And I think we've made a lot of progress in 12 months in those areas. So now the next level of focus obviously is looking at the cash conversion. It is a high priority for the management team, it's a complete focus for us. And as we make the structural changes to the portfolio. I mentioned, we still have some country exits, some AI exits that's going to be looked at through the lens of earnings of margin, but also of cash generation. And that was always the plan.

So what I'd say is we're very comfortable with the path that we're on. And by the time we get to the end of 2023 from a margin and EBITDA perspective, we're going to be halfway through this journey. And we believe that there is a pathway to get free cash flow conversion sort of north of where it is today as well and that will be a primary focus as we look through the rest of the portfolio changes that we're planning to make.

Operator: And moving on to Adam Samuelson with Goldman Sachs.

Q

Yes, thanks. Good morning, everyone. I wanted to maybe come into the some of the market assumptions that you have, both at the industry level and at the Corteva level for 2023 and just maybe on the Crop Protection side. And I know there's some noise related to the portfolio exits and but mid-single digit kind of market CPC growth. Help

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me think about Corteva volumes organically for Corteva in that context. And any maybe differentiation by region and along those lines kind of where you see channel inventories kind of going into 2023 and then in your key kind of operating regions.

A

Yeah, Adam, thanks for the question of what's going on in the market. It's a going to be a dynamic year. But as we look at it, it's you know, we're expecting the market organic growth to be in the mid-single digits, call it four to 4% to 7%. With biologicals outstripping that, it'll be the fastest moving segment. Overall, the demand continued very strong across all regions. And again, it's growers are chasing yield and that's where we that's our The sweet spot I guess is what I'd say with the products we have. You asked about channel inventory, and right now we see inventory to be above normal across all regions with the few hot spots around some pockets that we're going to have to watch, one, being, we talked about earlier the fungicide. And in Latin America is elevated a bit. To a lesser extent, Europe, not near as much. But when a couple of areas in Europe and then insecticide in Asia is elevated as well because it's just been wet, not have pest pressures. But you roll all that together. Those inventory levels are what we see in the channels is very manageable across the year, across the seasons and no issues there from a standpoint of will it work itself out?

We do see that the pace of price for the year flattening as compared to a year-over-year comparison. But we – like we said before, mid-single digits inflation, we're still expecting for Crop Protection. Again, more weighted towards the first half. I think the thing to watch is, is the global supply chain. So all things are trending in the right direction. If you look at all the key indicators for the global supply chain market. Well, what I would say is it's stable. It's not getting any worse for the first time in a while. And, you know, I guess I'm cautiously optimistic that continues to improve. But that's one to watch as well to see how does that drive the market as we move into this year.

So overall, you know, from a market standpoint, it's poised to have a really good year. And, we think we're sitting in a pretty good position across all levels there as well. Maybe a couple of comments on seed.

A

Yeah, go ahead, Tim.

A

Yeah. I think that, you know, when you pick a seed this year, you know, one of the big movers, obviously, is the shift back towards corn here in North America. We believe will have an increase area in both corn and beans. But that tilt towards corn is very important clearly for us. You know, we were still operating in a very healthy environment as well. Customers are generally good in terms of what their farmer income is. And there's certainly, as always, demand for the latest and best technology that's going to help them be most productive. The dynamics between corn and soy we watch that all the time up through final decision making and it continues to tilt towards corn. And I'm comfortable with that current 91%, 89% as a reasonable assumption around the world certainly dynamics are different than what we see here in North America. In Europe, I'd say that we're probably more expecting corn to be flat-ish in the marketplace, and that's driven by a couple of markets, including Ukraine impacting that. Latin America still strong momentum there. Certainly, we're in the midst of planting this spring season and in here in a few months, we'll be out selling summer corn as well as soybeans. And then on to spring

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you that all comes very, very fast. But still tremendous growth in across Latin America. And no reason to see that hectares won't be up not just this season, but also in the coming seasons as well for Brazil in particular.

Operator: And we will go to John Roberts with Credit Suisse.

Q

Thank you. Good morning. Actually, this is Evelyn Rodriguez. Quick follow up on seed for Tim. I mean, this is the first time in a long time where the seed business has a positive EBITDA in the fourth quarter. Can you talk about how sustainable that trend is going forward? And also remind us what's driving that change?

A

Yeah, I mean we, you know I'd say fourth quarter for us, it's our second smallest quarter. Let's not forget that. We're heavily, heavily weighted towards the first, first half of the year and the big driver in, in the fourth quarter is, is certainly Latin America, the live market that we have and, and you know that, that tends to be somewhat, it can change between fourth and first quarter depending upon how timely that that's a preview season starts. And this year I'd say we had a timely start to the season and very strong demand for, for product in Latin America. I think you're also seeing, you know, here in North America, you know, our, our business, we, we don't move a lot of pioneer through the model because that business is direct to farmer. And so very little of that is taking place at this time of the year. But what we are seeing, you know, an increase in the importance of Vermont in our multichannel business and, and we would expect that to continue on. So it's never kind of set in stone. There's still some seasonality elements depending upon how the year is going. But obviously, you know part of it was pricing, part of it was volume and, and certainly those are those are healthy. Those are healthy factors. And, you know we expect to see Latin American business continue to grow over time. So that that late, in end of the year business is going to be there. And we expect our multi-channel and Vermont business to continue to grow. So that's, that's certainly a factor that supported the fourth quarter, but it's a little bit of luck and obviously good execution here because it was driven by customer demand.

Operator: Thank you. That does conclude the question-and-answer session. I'll now hand the call back over to Kim Booth.

Kimberly Booth

Vice President-Investor Relations, Corteva, Inc.

Thank you. And that concludes today's call. We thank you for joining and for your interest in Corteva. We hope you have a safe and wonderful day.

Operator: Well, thank you. That does conclude today's conference. Thank you for your participation and have an excellent day.

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