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Corteva, Inc. (CTVA)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Corteva Second Quarter 2022 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Kim Booth. Please go ahead.

Kimberly Booth

Vice President-Investor Relations, Corteva, Inc.

Good morning, and welcome to Corteva's second quarter and first half 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 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 my pleasure to turn the call over to Chuck.

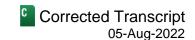
Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Thanks, Kim. Good morning, everyone, and thank you for joining us. There are several key topics we're excited to share with you today, including our strong results for the first half. Robust customer demand and sustained execution amidst dynamic market conditions resulted in double-digit growth in sales and operating EBITDA. Strong organic sales gains in every region are a testament to continued customer demand for our differentiated, sustainably advantaged technologies.

On the Seed side, our top-tier genetics continue to be in high demand as growers prioritize yields to help offset inflation. In Crop Protection, new product sales surpassed \$1 billion for the first half, an increase of more than 60% compared to prior year. This was led by products like Enlist herbicide, which has more than doubled in sales compared to the same period last year. The Enlist system continues to gain traction in the market given its superior performance and grower confidence. And we now estimate Enlist soybeans were planted on at least 45% of US soybean acreage in 2022. This is a remarkable feat considering this technology has only been in the market for three seasons.

Market challenges persist, including tightness in supply chains and continued inflationary cost. Despite this, the organization is executing well, utilizing price and productivity actions, as well as tight control over cost management to offset inflation. Through the half, these actions, along with a mix of new technology products,



helped to drive margin expansion of almost 130 basis points. Looking forward, we are also taking new strategic and operational actions to further accelerate our performance and create shareholder value.

Let's turn to slide 5 where I'll provide an update on the progress we've made on our strategic framework. Earlier in the year, we announced that we moved from a matrix organization to a global business unit model to drive overall simplicity and speed of business while increasing accountability. Today, we are announcing actions associated with a comprehensive strategic portfolio review we recently completed. At the center of our strategic review, we focused on several key priorities, including developing and commercializing differentiated technologies, shaping a performance-driven organization, and maximizing customer experience.

As a result of these reviews, we plan to exit non-strategic geographies and product lines while redirecting resources closer to the customer in core markets. Importantly, we are employing a strategy of differentiation to drive our competitive advantages bringing unique, sustainable ag technology solutions to growers to drive advancements in global food security, climate change, and the energy transition to include biofuels.

I've said from day one at Corteva, our technology engine is a powerful differentiator in terms of value we create for growers, society, and shareholders. We plan to provide a deep dive of our pipeline as part of our upcoming Investor Day. But here are a few highlights to give you more confidence today.

On the Seed side, we have nearly 20 times the experimental hybrids in our corn pipeline compared to 10 years ago, a testament to the strength of our data science capabilities. On the Crop Protection side, as I look forward to 2024, we will have launched 10 new active ingredients, 90% of these new products meet our sustainable innovation criteria. Utilizing this strategy, we will prioritize investments to support innovation while also balancing our commitment to return cash to shareholders. In fact, since 2019, we have returned more than \$3 billion to shareholders in the form of share repurchases and dividends.

Now let's turn to the outlook on slide 6. Recent ag commodity price volatility has increased due to several factors, including the war in Ukraine, increased energy costs, especially in Europe, the strengthening US dollar, and continued cost inflation pressures. Although we expect to see expansion of planted acres in Latin America, global grain supplies remain tight, especially as dry weather casts uncertainty over important growing regions.

Despite the short-term volatility, the outlook for agriculture remains positive. We expect record demand for grains and oilseeds in 2022, which we believe will support commodity prices for the next few years as demand continues to outpace supply and we work to rebuild pending stocks.

Farmer income levels remain at near record highs despite increased input costs for fuel and fertilizer. We are encouraged by a resilient demand as growers prioritize the latest technology and top-tier products to increase productivity on the farm.

Based on this market outlook and in conjunction with our refocused strategy and second half operating plans, we are raising our previously provided guidance for the full year. Net sales are now expected to grow 11% and operating EBITDA, 17% at the midpoint over prior year. This level of operating leverage demonstrates we're on the right track, and I look forward to sharing more of our plans with you soon.

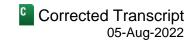
With that, let me turn it over to Dave to provide financial details on the half and the outlook.

David John Anderson

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



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Thanks, Chuck, and welcome everyone to the call. Let's start on slide 7, which provides the financial results for the quarter and the half. As Chuck said and as you can see from the numbers, we've started the year strong. Quickly touching on the quarter, organic sales increased 13% compared to 2021, with gains in both segments and all regions. This translated into earnings growth of 18% and margin improvement of more than 150 basis points, another solid quarter of continued growth and margin expansion and I think differentiating Corteva in this environment.

Now, focusing on the half, organic sales grew 14% over prior year with broad-based price and volume gains. Global pricing was up 9% with notable increases in both Seed and Crop Protection. Volume growth in Crop Protection of 16% was driven by the strength of new products, which delivered approximately \$400 million of sales growth year-over-year, an increase of more than 60%.

We delivered \$2.8 billion in operating EBITDA in the half, a 17% increase from the same period last year. This is noteworthy given the continued inflation of raw and energy costs, commodity price volatility, and the war in Ukraine. Pricing and productivity more than offset the higher costs incurred, as well as an approximate \$200 million currency headwind, driven predominantly by European currencies. This improvement translated into almost 130 basis points of margin expansion year-over-year.

Let's go to slide 8 where you can see the broad-based growth with strong organic sales gains in every region. In North America, organic sales were up 9%, 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 in canola. Soybean volumes were up 4% versus prior year, driven by continued penetration of Enlist. Both segments delivered pricing gains with corn and soy up 6% and 7% respectively and double-digit pricing gains in Crop Protection, more than offsetting higher input costs.

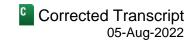
In Europe, Middle East, and Africa, organic sales increased 19% compared to prior year, driven by both price and volume gains, again, in both segments. It's an impressive performance by the organization considering the impact from the war in Ukraine and the recent dry weather condition in parts of Western Europe. Seed pricing increased 12% and helped to mitigate currency impacts. And for Crop Protection, demand remains high for new and differentiated products, driving volume growth of 15% year-over-year.

In Latin America, we delivered 31% organic growth with double-digit volume and price gains. Pricing increased 13% compared to prior year driven by our price for value strategy, coupled with increases to offset rising input costs. Seed volumes were flat due to tight supply of corn, while Crop Protection volumes increased 34%. We also had a timing benefit on an early customer demand in Brazil, shifting some forecasted volume into the second quarter.

Asia Pacific organic sales were up 13% over prior year on both volume and price gains. Seed organic sales increased 24% on strong price execution and the recovery of corn planted area from last year's COVID-related impacts. Crop Protection volume growth of 5% was, again, led by demand for new and differentiated products.

Let's now turn to slide 9 for a summary of our operating EBITDA performance. First half operating EBITDA increased nearly \$400 million to \$2.8 billion. And as I covered on the prior slide, strong customer demand drove broad-based organic growth with price and volume gains in all regions.

On costs, we incurred more than \$500 million of market-driven cost headwinds in the half, driven by higher seed commodity costs, crop protection raw material costs, as well as freight and logistics. The company achieved approximately \$130 million in productivity savings in the half, which helped to partially offset this impact. Currency



was a \$200 million headwind, primarily by European currencies. The organization's focus on meeting the increased customer demand, while effectively managing cost headwinds through pricing, product mix and productivity, resulted in nearly 130 basis points of margin improvement for the half.

Let's turn now to slide 10. I'd like to expand just a little bit on our cost actions. In connection with the business realignment that Chuck referenced, we've completed a strategic assessment of our priorities and operational structure. As a result of this assessment, we anticipate incurring restructuring charges on a quarterly basis through the second quarter of 2023 of approximately \$400 million. Roughly half of the \$400 million of restructuring will result in cash payments, and the remaining \$200 million is related to long-lived assets, the Russia withdrawal, and some inventory write-off.

This quarter, we've recognized \$68 million in restructuring and other charges. These charges were primarily a result of contract terminations, a reduction in head count, and a \$45 million charge related to our previously announced withdrawal from Russia. We expect additional restructuring and other charges of approximately \$325 million over the next 12 months, including charges from head count reduction and rightsizing our operations and functional support structure.

And finally, and a key point, we expect the restructuring actions will deliver more than \$200 million in run rate savings by 2025. More to come on this, but we believe these actions will position us to deliver increased value in both the short and long term.

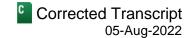
Let's go now to slide 11 and talk about the remainder of the year and our updated expectations for 2022. With the backdrop of our strong first half performance, we're raising our reported net sales guidance to be in the range of \$17.2 billion to \$17.5 billion for the year, representing 11% growth at the midpoint and includes an approximately 2% to 3% currency headwind.

We're also raising our operating EBITDA guidance to a range of \$2.95 billion to \$3.1 billion or 17% growth over prior year at the midpoint. This increase reflects continued strong price execution in both segments in all regions, both for our technology and response to rising input costs. We now anticipate \$500 million of year-over-year improvement in sales from our new crop protection products, an increase of \$200 million over our original annual assumption, driven by strong demand in every region.

And as we focus on the second half of the year, we expect pricing and productivity to more than offset cost headwinds, which are driven by crop protection raw material costs, seed commodity costs, as well as freight and logistics. Volume growth will be led by Crop Protection, primarily in Latin America, as farmers look to the newest technology to drive productivity on the farm. Seed volumes are expected to be relatively flat in the back half of the year with tight seed supply in Latin America corn.

And regarding the third and fourth quarter outlooks, we expect the distribution of both revenue and operating EBITDA between the quarters to be consistent with our historic patterns. The volatility of exchange rates continues to be a key variable that we're monitoring, primarily the Brazilian real. While we are largely hedged for this currency exposure, we currently expect an approximately [ph] \$50 million (16:45) headwind in the second half.

We continue to maintain disciplined spending. We anticipate that SG&A as a percent of sales will improve by more than 100 basis points for the full year. Increased customer demand, coupled with the ability to manage cost headwinds through pricing and productivity, is expected to result in approximately 100 basis points of margin improvement for the full year at the midpoint. We're raising our operating EPS guidance to a range of \$2.45 to



\$2.60 per share. A lower share count driven by the \$600 million of share repurchases completed in the first half of this year, coupled with strong operating earnings, is driving an expected 17% increase in operating EPS year-over-year.

Lastly, we expect free cash flow to be in the range of \$1 billion to \$1.3 billion, lower than our earlier assumption of \$1.3 billion to \$1.6 billion. The change is led largely by higher accounts receivable balances on higher revenue. Despite the increase in working capital balances, all working capital metrics including days sales outstanding, receivables, and our inventory days' supply continue to be strong.

Let's now go to slide 12 just to summarize a few key takeaways. It's clear that our organization, as Chuck has said, is executing very well. We're obviously very pleased with the strength of the first half results. This momentum gives us confidence to raise our full year revenue and earnings guidance, and we've taken very important steps in our strategic road map to accelerate operational performance and drive continued operating EBITDA margin expansion. We've completed comprehensive portfolio reviews. We're taking cost actions to support our strategic priorities and our performance outlook.

And finally, we plan to maintain our track record on capital deployment with our recently announced 7% increase in the dividend. And we expect to complete approximately \$1 billion in share repurchases for the year. So, we're excited to share more about this at our upcoming investor event.

And with that, Kim, I'll turn it over to you.

Kimberly Booth

Vice President-Investor Relations, Corteva, Inc.

Thank you, Dave. On slide 13, I want to briefly share the agenda of our upcoming Investor Day. As a reminder, the event will be held on September 13 in Johnston, Iowa at our global business and R&D center. The management team will provide more detail on the strategic updates that we touched on today, as well as how these actions will translate into earnings and margin growth. We'll detail our financial framework and include a showcase of our innovation pipeline. Registration details are available on our website, and we look forward to seeing many of you in person at the event.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll take our first question from Vincent Andrews with Morgan Stanley. Please go ahead.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Thank you, and good morning, everyone. Just a question on the 5% of sales that you're going to exit, as well as the \$200 million program. How would you characterize both of those in terms of is this just complete finality? And you've gone through everything, top to bottom, and that's it, it's only 5% of sales? And the \$200 million, that's all you've – that's it, you figured it out? Or is it the case that maybe there are some more sales that are sort of on the bubble that you're going to reevaluate down the road and that you think maybe as you get through the \$200 million, you may find other things to do? How would you characterize these programs?

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Good morning, Vincent. So, why don't we do this this morning? We'll have Dave talk a little bit about the process that we went through, and we'll say it was an extensive process. We had many employees involved in the effort. And then I'll come back and I'll give you a perspective on what we think where we are in the overall outcome and what we will share more for you in September.

So, let's start with the process this morning. Go ahead, Dave.

David John Anderson

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

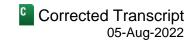
Sure. Yeah. Let me just say that – echo what Chuck said, which was this was very comprehensive and involved the breadth of the organization to really ensure that we're looking at all elements of the portfolio, as well as – again, as our cost structure. This is – I'm going to call it fit for purpose in terms of their cost structure.

In terms of the process, you really think of an – I think of it as two dimensions. One dimension is our, call it, unique and technology-based differentiated products. In other words, do we have, call it, comparative and competitive advantage in particular products and particular geographies, I'll call it markets?

And the second one is [ph] scores then (00:22:41) we apply to that screen in terms of our financial performance. Are we delivering, if you will, economic profit in those markets? It was really that screening process that allowed us to really stand back and really scrub, which of those that are really – call it, really strategically significant and core to the business going forward. And what was the appropriate resource allocation associated with that, including the appropriate go-to-market strategies?

All of that then resulted in what you just referenced, which is a decision at – which, by the way, is still in process, and Chuck will talk about that from a timing standpoint, but decisions in terms of some of these, call it, market exits, as well as some of the realignment of the cost structure. Just on the cost structure, and that may be what you're referencing in the \$200 million and \$400 million of restructuring, \$200 million of that is cash costs, which will generate \$200 million of savings in terms of run rate savings by 2025. There's more that we're doing. There's

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more simplification, more additional other work that will also provide benefit. And again, we'll expand on that as we come together again in September.

Chuck, you want to add to that?

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

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Yes. So, look, I think from a process perspective, we spend a lot of time and effort. We've made the decision to exit what we call some nonstrategic geographies and product lines. Where we're still focused, Vincent, to be candid with you, is there's some markets that we're still analyzing when it comes to what level of resourcing should we have, what's the route to market. So, these are some of the other pieces of work that are still on the todo list. But the way you've referenced it is accurate. We, I think, did a very good analysis on the ability for the markets to grow, the strategic fit that we're trying to shape up for our focus, and then how much money we make in some of these markets and different product lines. And we've made the decision and – as you've referenced.

So, there's about 5% of our revenue that's impacted here, but we're going to keep essentially all of our EBITDA. But there's some further work to be done. The reason we're not talking about specifics today, just to be candid, is we still have to go through the internal communication process. We haven't notified some of our stake – other stakeholders around the specifics. And so those plans are going to take some time. But I think when you think about the \$200 million that's related to the \$400 million write-down, what I would say to you today is that is one element of a broader strategic and financial framework which we will share in our September Investor Day.

So, I think the way you ask the question, is this it? Is it done? I think you need to wait till September to see the overall financial framework that we're going to lay out at the Investor Day so that you'll be able to measure, to monitor our progress for value creation. We think that we've got a great plan now put together. Obviously, it's going to be key to execute the plan. But we've, I think, looked at the company from, first of all, a strategic lens and then an R&D and innovation lens and now a financial lens. And when we put that together, I think what you're going to see is a very comprehensive plan to drive shareholder value. But more than that, to really work on some of the world's biggest challenges when it comes to food security and the energy transition.

Operator: And we'll take our next question from Joel Jackson with BMO Capital Markets. Please go ahead.

Joel Jackson

Analyst, BMO Capital Markets Corp. (Canada)



Hi. Good morning. Maybe a two-parter on Seed. Looks like your soybean performance is really strong this year. So, first part is, looks like you're taking share in soybean seeds. Are you maybe giving up some share in corn seed?

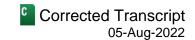
And then my second question is, if you look into now – a little early, but it looks like there's some really good trends happening in seed pricing. And when your competitor is talking about double-digit – low double-digit price mix in corn and soybean seeds and they get into pricing season soon, can you talk about that a little bit and where costs might trend for the next season versus now? Thanks.

Timothy P. Glenn

Executive Vice President-Seed Business Unit, Corteva, Inc.



Hey. Good morning, Joel. This is Tim. I'll take a shot at these. It's obviously the first part on market share. Appreciate the comments on soy, especially in calling that out. [ph] UFCA (00:27:33) reported in June what their



expected acres were in the US, and I would say they were consistent with what we believe was planted. So, not a lot of conflict there. And, again, they'll update that report next week.

But based off of where we sit today is, we believe we gained market share in North America, both on corn and soy. So, on corn, both Pioneer and Brevant contributed to that. And on soybean, Pioneer really drove the growth there. And on top of that, we did very well in Europe for both corn and sunflower. So, really strong execution in the field for us to be able to capture both share and value through really, really outstanding execution. So, proud of where we sit there and really positive momentum on both corn and soy as we go here.

In terms of pricing, as we go into next year, clearly that's going to be one of the big questions that's always out there. I guess I'd start with really reinforcing the strong execution we had in the first half of 2022. We went out with a, I think – I'd say a bold approach to pricing this past year, and we were able to deliver 7% globally and really 7% for each of our major crop categories in the first half: corn, soybeans, and our oilseed products. So, to me, it's a testament to the value that we're delivering to farmers, and also continuing with that strong execution in the field.

As we turn the page to 23, we know it's going to be a competitive market. But the general economics continue to remain favorable, and our customers are demanding products, technology there and help them drive yield and profitability. So, we're in the process now of working on our offer for 2023. From a North America timeline, we'll start to roll that out here in August, and that'll continue. August and September, we'll be out in the marketplace in Europe. It'll be more like a September, October timeframe. We've got a strong portfolio of hybrids and varieties. Farmers are recognizing the value. Our teams have a proven track record of executing in the field and capturing value. And we continue to expect our pricing to be accretive to margins in 2023.

So, in Seed, it's a huge amount of priority. Generally speaking, we don't have the area increase that much in any one year. So, for us to be able to continue to drive growth, value, and margin expansion, we've got to be able to continue to execute strong in the price area.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Yeah. Joel, maybe just a good call-out on Enlist. So, we mentioned in the prepared remarks that we're now anticipating that we're on 45% of the US soybean acres. I've traveled through the South and the Midwest over the last two weeks talking to our customers. And I'll tell you, there's a lot of excitement around this technology. Just from multiple dimensions, I think it is a set of tools that farmers need. We're just very pleased at how the farmers are adapting to the technology. I actually attended a couple training sessions for some of our retail channel partners two weeks ago. And, look, everything looks great when it comes to the Enlist system.

And in the first half, we crossed the billion-dollar range for the entire technology platform system. So, you start thinking about that. Now, it's another billion-dollar franchise that Corteva has, and I think that there's some good things to come down the road. As I mentioned, we've only been on the acres for three seasons now. So, there's still some more to come.

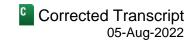
Operator: And we'll take our next question from David Begleiter with Deutsche Bank. Please go ahead.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

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Thank you. Very nice quarter. Chuck, just on Crop Protection and, again, very good results here, are you still seeing cost increases here? Are you still raising prices? And how durable are these price increases going forward?

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

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Yeah. Thanks, David. I'll have Robert address those questions.

Robert King

Executive Vice President-Crop Protection Business Unit, Corteva, Inc.

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Yeah. David, when you begin to look at Crop Protection for the year, yeah, we've seen some inflation in the first part of the year and been able to use our value for pricing strategy as a move forward there of more than offsetting with price and productivity. So, we've been able to hit those headwinds off. As you look into the second part of the year, we'll continue to follow that same strategy. And we do expect to continue to have some headwinds, although we think that the inflation will begin to slow a little bit based on being able to lap the previous year increases. But we do anticipate there will continue to be headwinds.

And so we're going to continue to follow the same strategy, watch inflation closely. But we think we're in a very good position with the technology that's being pulled onto the farm from our growers. If you look at our new products, right, we're up 60%. And I think that's a big, I guess, shot in the arm for us from a standpoint of the demand for our new technology that is being pulled into the markets. So, I think that's sort of how you should look at the second half.

David John Anderson

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



Yeah. And, Dave, maybe – this is Dave Anderson. Maybe I could just add a little bit to Robert's comments is, as we indicated, we have some incremental inflation that we've now built into our guide for the second half. So, it's bringing the total up now for the full year probably into the 10% to 11% range in terms of inflation as a company overall.

And the components of that, Robert referenced obviously the active ingredients as a key component. Freight and logistics, a very, very important component of that. So, we're really looking at all of this eyes wide open. As Robert said, the early planning that we have is for the continued inflationary trends, but hopefully at a lesser rate as we go forward. Again, we'll provide a little more insight to that forecast on that as we go forward to the year.

I think one of the things that's really testimony to the company is the fact that we've been out in front of this, when you go back actually to early 2021 in terms of what we began to see then and the actions that we've been able to take subsequently. So, it's something that's very, very front and center for us.

Operator: And we'll take our next question from Kevin McCarthy with Vertical Research Partners. Please go ahead.

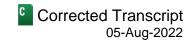
Kevin W. McCarthy

Analyst, Vertical Research Partners LLC



Yes. Good morning. Would you comment on your latest expectations for your net royalty payments in 2022 trending into 2023? And based on what you're seeing with Enlist and other trends, how would you describe your latest level of confidence in achieving neutrality there in the 2028 or 2029 timeframe?

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David John Anderson

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

Maybe I could just comment very quickly, Tim, on a couple of numbers and then why don't you follow a little bit with that strategic view that Kevin asked about. But, Kevin, you recall that, basically, we're even with 2021 in terms of that net royalty assumption that's in the P&L. That had to do with some benefits that we achieved in 2021 that were basically constant in 2022. There is a nice pickup that begins in 2023, and then will continue to ramp. Again, we're going to share more insights on that and more of a multiyear look of that when we get together in September.

Tim, you want to talk a little bit just about overall from your perspective?

Timothy P. Glenn

Executive Vice President-Seed Business Unit, Corteva, Inc.

Yeah, Dave. Yeah. I think the big thing now as we look into 2023, there's one major driver. And as Dave said, we take a big step forward in terms of that move towards royalty neutrality, as you say, Kevin. And that's driven by our significant ramp-up in the sale of Corteva genetics with the E3 trait in Corteva seed brands. And so that's been something we've talked about for it seems like a long time now, about three years here. And 2023 is when you're going to see the big move forward there.

So, we're going to continue to increase the amount of Corteva-branded sales that are in Enlist E3, and we'll take a major step forward with that in the year and also a major ramp-up in terms of the proprietary germplasm that we'll have available for our brand. And down the road, what that does as we introduce our proprietary germplasm is, opens the door for more licensing. Not necessarily a 2023 item, but further down the road, that's going to continue to offset those royalty payments that are ongoing and keep us on that path towards neutrality.

Operator: And we'll take our next question from Chris Parkinson with Mizuho. Please go ahead.

Christopher Parkinson

Analyst, Mizuho Securities USA LLC

Great. Great. Thank you so much for taking my question. You hit on this a little bit earlier in the potential for [ph] CPC (00:36:56) margins just given the degree of inflation, and obviously you've been pricing quite well. There are also a lot of moving parts in terms of the new product momentum. I mean, it seems like Isoclast or Rinskor, all the things over the last few years are still carrying a decent degree of momentum as well. Could you hit on that as it pertains to 2023 and 2024? And also, just give us a quick update on the spinosyns expansion. Thank you so much.

David John Anderson

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

Go ahead, Robert.

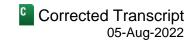
Robert King

Executive Vice President-Crop Protection Business Unit, Corteva, Inc.

Yeah. Chris, thanks. When you look at second half and margin, Dave mentioned some of - [ph] a little bit of goals (00:37:32), how we have managed that. We've had a great run in the first half of being able to manage our margin with the strong demand that we've got for our new products, as you mentioned there.



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And so like we said before, historically, first half margins are higher. The new product growth was [ph] disportionate (00:37:52) to first half. But Latin America has also had a early season buying that happened a little bit in Q2 with just the strong demand that's going on there. But all that said, we still expect to have a very solid second half for margins, and we expect that our new products to continue to give us value there. The technology we're putting on the farm and driving value for the grower is something that is really being pulled by them, and it's something that's giving them a new tool in their toolbox.

Specifically to spinosyn, so our capital projects that has been running there up in Midland, Michigan is on track. We've actually had our first commercial product to come off the line, and we're working on moving forward there. So, this is going to be a good expansion for us over the next few years on a product that is in high demand in our markets. And as we ramp up between now and 2050, that's going to put another 50% capacity into the market that will be a good value-add for us and to the growers.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Yeah. Chris, the way I think about CP and the journey we're on for the next couple of years, it's sort of more of the same. I think just if you look at the first half results, it's clear we have the right strategy, and the CP team is executing very well in what I would consider to be quite a challenging market backdrop when it comes to supply chain challenges and cost inflation. So, I think we do have the right formula, and where we're trying to take the CP business is to be a seller of differentiated and unique CP products.

And so the new products, plus the spinosyn capacity as it comes on line over the next couple of years, what you're going to see from us is that we're going to continue to sell the higher margin, differentiated-type solutions to farmers, and that should continually to improve our business.

Now, when I look at the first half, it's a strong year by almost every measure when you look at our CP business. And some of that is the fundamentals and the timing from a customer demand perspective. Some of it is structural change that we're making in the product portfolio. And as you look out to 2023 and 2024 and I'd even say 2025, what I would expect you to see is just continued steady business improvement, margin expansion as we manage our controllable cost and we brought new technology into the market.

Operator: And we'll take our next question from P.J. Juvekar with Citi. Please go ahead.

P.J. Juvekar

Analyst, Citigroup Global Markets, Inc.

Yeah. Hi. Good morning. Your price cards for seeds typically come out in August or September, which is way in advance of the actual planting. And a lot can change between when the price cards come out into planting, especially in a year like this when there is so much volatility. So, how do you manage that volatility? How much of your seed production is hedged right now?

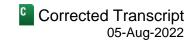
And then you also mentioned Brevant brand gaining share. Can you just give us an update on that in the retail channel? Thank you.

Timothy P. Glenn

Executive Vice President-Seed Business Unit, Corteva, Inc.

Yeah. P.J., let me take a shot at that. So, in terms of volatility, I mean, there's always a fair amount of uncertainty at this time of the year in terms of our seed production. So, as we look out across the board, we've been – it's

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been a interesting environment in the US. We saw commodity prices kind of peak in the spring and go down and now bouncing around a little bit. So, we're off of the high there. So, that's clearly one of the factors we deal with in terms of...

The other factor is clearly around our production volumes. We've – and this is a both a US and – or North America and Europe issue in terms of the production season. We've got a very distributed production footprint in terms of geographic footprint. So, got some diversification there. We're largely irrigated in both North America and Europe. And I would say, as we evaluate and far from certain in terms of what we'll harvest, we feel like we're close to budget right now in the US despite some of the weather challenges that have been out there in Europe.

Feel very good. Harvest is underway. And we probably have a little bit of higher stress from our production in Hungary, but other plants seemed to have handled the stress well, and we really do expect to be in a good position there.

So, in terms of timing, I mean, obviously, it's a balance. I'd love to be able to price just in time and had every variable known. But from a competitive standpoint, it's very important that we get out in the marketplace and connect with our customers. And so as customers are harvesting the commercial crop through the fall months, that's when they're evaluating their hybrids and what performed, what didn't perform, who they're going to commit to for the next year. So, it's very important that we're positioned well. We can go out there with a confident offer and put that in front of a customer at the time when they're ready to make their decision.

And so that seed purchase decision, the timing has been very consistent over a number of years. And by the end of the year, farmers have generally made a close to final decision in terms of the brands and the products, and they'll finalize the volumes as they get closer to planting and what the ultimate crop mix is. So, I don't anticipate that changing. And I wouldn't say we're dealing with a whole lot more variables. We are well-hedged at this point, but we still have some hedge to go on both corn and beans. And so we have not locked down our COGS right now, but we feel like we've got a pretty good grasp on what that will be. And obviously, we're going to continue to use the levers, as Dave said, the controllables that are in front of us, around productivity and pricing to help mitigate those situations.

In terms of Brevant, we're rolling into year three with Brevant in the US where we continue to grow the business and – which is really exciting in a year when acres were down in the US. And Brevant definitely did contribute to our share growth for corn in the US this year. Our focus with Brevant right now is to continue to build confidence with our channel partners, and we got to continue to build confidence with our farmers. And so we've got excellent product performance.

Things look good in the field right now. I spent a fair amount of my time connecting with those key channel partners. We continue to build the confidence and relationship and the interest. And as we roll into 2023, our third year in the market, I'm very satisfied with the progress up to date and really excited about the opportunity and in full expectation that we're going to continue to grow that segment of our Seed business.

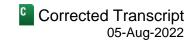
Operator: And our next guestion comes from Jeffrey Zekauskas with JPMorgan. Please go ahead.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Thanks very much. A few questions pressed into one. Can you talk about your pension liability and what it might look like at the end of the year? And how that might affect future pension fundings in the future? Second, could you talk about what your crop chemical growth in volume would have been if you didn't have new products? And





then thirdly, is the restructuring that you plan really more in seeds than in crop chemicals? And if so, why or is it evenly split?

David John Anderson

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

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Okay. Why don't – Jeff, why don't I start with the first one on pension? The pension status is another, I would call right now, a good news story. And despite the – some of the challenge in the equity markets, I think we've managed this very smartly. We've significantly reduced the percentage of asset allocation in our overall portfolio to return seeking assets, and we've also been able to, obviously, benefit from interest rate increases.

At the end of 2021, the pension's funded status was 90% – over 92% – over 90% funded. So, that was very healthy, and you recall those numbers from our filings and from our previous discussions. And despite equity markets and some of the other challenges, the reality is, we've been able to hold to an over 90% funded status through June 30 in, if you will, positive territory.

We've recently recalculated all of the math looking forward. And as you know, it's a fairly complex statistical analysis that goes into that, using our outside experts and actuaries. And there's little claim on the company's free cash flow within the foreseeable multiyear outlook in terms of pension liability. So, I think it's something that's been very, very well-managed. I think it's a really good news story when you think of Corteva.

And what it translates to, obviously, is it gives us a fairly significant flexibility when we think about our capital deployment strategies. And we think about the opportunity, not only to return cash to shareholders and to invest, if you will, organically for growth, it also gives us opportunities selectively as we look at advancing our technologies and accelerating our market position in some of those key technologies. It really gives us a lot more flexibility going forward.

Maybe on the last one on the restructuring. And then, Robert, you may want to talk a little bit about the CP volume without the new products. On the restructuring, there really isn't a precise split that I can give you between the two business units, between Seed and Crop. When you look at it and look in terms of the major categories of – and components of what we're doing with the restructuring, it's really across the organization. And it's really, again, associated with an outcome of our portfolio reviews, our strategic review, as well as looking at our overall cost structure and we think doing the right thing to set us up, not only as you would suspect for 2023 and as Chuck referenced, but really is taking a view over the – if you will, the mid-term, a multiyear mid-term look at how to best position the company going forward.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Yeah. And maybe before going to Robert, so, Jeff, just on the restructuring, so Dave covered that well. Well, what I would say, this was a company-wide exercise. It wasn't simply a product line or a BU exercise.

David John Anderson

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

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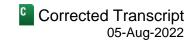
Yes.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

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So, we started with the top of the house, the strategic direction. So, yes, there's going to be Als that we're exiting. There's going to be more focus on certain crops. But there's also a really good look at our infrastructure and what cost structure do we need to go forward. We've even looked at our digital offerings. So, this was very comprehensive. It wasn't contained to one or two of the BUs. And we'll put all of that together for a financial and operational framework for you to understand at our Investor Day.

So, maybe, Robert, can you address the CP growth volume question?

Robert King

Executive Vice President-Crop Protection Business Unit, Corteva, Inc.

Yeah. Sure, Chuck. Jeff, when you look at this, the new products grew \$400 million for the half. But more importantly, your question of, well, what would it be without it? A lot of things in that. Old products would still be sold in those place of and etcetera, but it's not just straight math. There's a lot of different moving parts to this. But

I think the big thing to understand here is, the grower demand is very strong. And so there would be a - there's a

continued need for products on the farm. And the new products are filling a need there with the technology, etcetera, that we give them as a new tool.

David John Anderson

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

And I think just - maybe, Robert, just to add quickly to this, and something you mentioned earlier, is obviously we're benefiting in terms of the - what you're able to bring to the bottom line and what you're demonstrating in terms of margin expansion that those new products are also contributing to. So, very important, not only meeting demand in the marketplace, but also adding value, which is great.

Operator: And we'll take our next question from Steve Byrne with Bank of America. Please go ahead.

Stephen Byrne

Analyst, BofA Securities, Inc.

Yes. Thank you. Curious as to what you heard on your travels in recent weeks, Chuck, on the level of dicamba drift that has occurred this year. What are your data sources indicating to you in terms of, is it worse or perhaps maybe less so than prior years just because of the shift towards Enlist? But more importantly, if – do you have a view on whether EPA might take some action on the dicamba registration, like they've suggested, where that could make over-the-top use of dicamba more challenging in 2023. If that were to happen, how would your lineup of seed production in 2022 give you the opportunity to really shift more towards Enlist in 2023?

And just one more on there, you mentioned renewable fuels. I'm curious if any of that soybean pipeline you have includes any high oil percent soybeans in the lineup to be feedstock for RD down the road.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Yeah. Good guestion, Steve. Thanks. I'll comment on – from my travels, and then Tim spends most of his days out there. So, let me just address the renewable fuels question for you right upfront. So, yes. I guess the short answer is, we're going to show you some of our technology pipeline at our Investor Day. This is an area we're quite excited about to drive up higher oil, but also other elements of the genetic code, I think, as well that Sam and his team are working actively on to do different things even in alternative proteins.

Corrected Transcript 05-Aug-2022

So, these are things that I think the world needs. They're solutions that are going to be - we're working with some of our partners in different industries. There's a lot of excitement around what we can do. And so the key for us will be, not only solving the technology formula, but then the regulatory arena and the freedom to operate. And we need to put all of that together.

But I think that from what I've seen certainly is the science and technology is getting to a point where we can solve some of these – at least make major steps to solve some of these really difficult challenges. Renewable fuel needs to be part of the energy transition, and I think that we're going to demonstrate some of that for you in September.

Dicamba drift. So, I did – as I mentioned, I spent some time in the South. And certainly, I've seen the fields where there was dicamba drift and damage to the soybean fields. Unintended consequences is the way I would say it. So, I won't comment on whether this should be [ph] probably (00:54:33) taken up by the EPA. I think the EPA needs to figure that out.

But what we're trying to do, of course, is ensure that growers and even the retail channel has options and solutions. And when you look at the Enlist technology, of course, it doesn't have that same characteristics. When you spray the Enlist herbicide, it stays where it is intended to stay on its target. And that's one of the major reasons that's driving, I think, strong demand from a customer base.

So, that is one of the things that I think the market in general is highly focused on, is keeping these products where they're intended to be applied. And I think the Enlist platform has demonstrated that it does that very well.

Tim, observations?

Timothy P. Glenn

Executive Vice President-Seed Business Unit, Corteva, Inc.

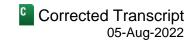
Yeah. Chuck, I think your comments in the South, very consistent. There's been a few pockets where I'd say the visibility or the noise around some of those issues have been stronger this year. And particularly in the - when you get into the Mid-South of the Delta area, and I'll be there next week and be spending time on the ground with customers and our sales team and channel partners and to understand more about it.

In terms of speculating on what could happen from a regulatory standpoint, it's impossible to do that. And as Chuck said, the EPA is going to have to make a call on that. We have seen some states step up and be more aggressive in terms of regulation. And I'd say - I'll speak in general. And last night, I spent a better part of the evening with about 30 of our field sellers in a meeting and got feedback on this. I'd say across the Midwest, we've kind of gotten to a critical mass with Enlist where - and some of those state regulations that are in place where maybe the issue not quite as visible as it had been in the past years, at least in terms of what our customers are experiencing there.

So, what we have to continue to do is support our customers through proper advocacy, or our technology customers where they have concerns. Farmers need to speak up to their channels within their states. And obviously, we're going to continue to support and advocate for best practices around safe use for all the technologies that are in the marketplace. I don't think we want to position this as Enlist versus Xtend or anything like that. We want to make sure that all technologies are available and that customers do have choice, and that those products are used appropriately and those best management practices have to be in place.



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So, in terms of the 2022 seed crop, that's in the ground. And so we will have a significant ramp-up in our branded business for 2023 sales. So, that's reflected in our seed production decisions already, Steve.

Operator: And we'll take our next question from Michael Piken with Cleveland Research. Please go ahead.

Michael Piken

Analyst, Cleveland Research Co. LLC

Yeah. Good morning. Just wanted to get your sense in terms of the early buying from Latin America. How much revenue do you think might have been pulled forward? And if you could just give us a look at where you see the inventory situation in Latin America, North America and anywhere else interesting in terms of those Crop Protection inventories. Thanks.

David John Anderson

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



Yeah. Maybe I could just start there and just comment quickly on the numbers. And then, Robert, why don't you pick up and talk a little bit about those inventory levels and the overall market as you see it in LatAm and Brazil?

Estimate from – kind of best estimate, this is a judgment, is – it's about \$100 million or approaches \$100 million of benefit that we got in the second quarter. It's part of when you look at our guide for the second half, we've factored that in in terms of our thinking and also contributes to what I said earlier. When you look at the distribution of both revenue and EBITDA between third and fourth quarter, how our outlook or our guide matches or is consistent with our historic pattern. So, that's one of the contributors in terms of that math, Robert. And that's really just reflective – by the way, the \$100 million estimate is really attributed, I think, to two things. Number one, just the strength of demand. And the second thing is, that we had product available to fulfill that demand.

So, Robert, you want to talk a little bit about just the overall conditions?

Robert King

Executive Vice President-Crop Protection Business Unit, Corteva, Inc.



Sure. Yeah. Latin America, like Dave is talking about there, very strong demand down there from our customers and the growers there. And unprecedented first half organic growth, love to have it into the future, but that's really not realistically to be sustainable. But all that said, there is early season buying because when products available, they're going to take it. The farmers are healthy financially and in a good position.

But we expect to still have very good growth in the second half down there anyway. If we hit in that – we should hit in that 25% to 30% organic growth, and that's nothing to laugh at either. So, we expect a very strong second half down there, and the growers demand is really driving that.

Operator: And that concludes today's question-and-answer session. At this time, I will turn the conference back to Kim Booth for any additional or closing remarks.

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. Thank you.



Operator: Thank you for your participation. You may now disconnect.

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