**Corteva Agriscience 4Q-FY 2020 Earnings Conference Call Transcript**

**Feb. 4, 2021**
**9:00 a.m. ET**

**Operator**

Good day, everyone, and welcome to the Corteva Fourth Quarter 2020 Earnings Call. Today's call is being recorded. At this time, I would like to turn the conference over to Jeff Rudolph. Please go ahead.

**Jeff Rudolph**
Investor Relations Director

Good morning and welcome to Corteva's fourth quarter 2020 earnings conference call.

Our prepared remarks today will be led by Jim Collins, Chief Executive Officer and Greg Friedman, Executive Vice President and Chief Financial Officer. Additionally, Tim Glenn, Executive Vice President and Chief Commercial Officer, and Rajan Gajaria, Executive Vice President of Business Platforms, will join the live 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 for, or statements about, the future. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in the comments made during this conference call and in the Risk Factors sections of our Form 10-K, Forms 10-Q and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

We provide a pro forma basis discussion in our earnings release and slides. Unless otherwise specified, certain historical financial measures are presented today on a non-GAAP or adjusted basis and exclude significant items and other charges and net benefits, which can be found in the schedules that accompany our earnings release.

On our investor relations website, you can find our earnings press release and our supplemental financial summary slide deck, which is intended to supplement our prepared remarks for today's call and provides a reconciliation of differences between reported GAAP and non-GAAP financial measures. The non-GAAP financial measures provided should not be considered a substitute for the measures of financial performance prepared in accordance with GAAP.

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

**Jim Collins**
Chief Executive Officer

Thank you, Jeff, and welcome to the participants joining the call today. Starting on slide 4. As I reflect on the year, 2020 was a year of profound societal and economic disruption globally. Despite these challenges, I am extremely proud of the continued resiliency of our company.

Our global teams have worked aggressively to keep our employees and customers safe, our supply chains open, and our growth commitments on track. Our progress as a company in managing through the pandemic and other disruptions over the last year confirms the strength and durability of our strategy.

Underpinning our progress is our strong organic sales growth for the full year, where our teams delivered gains in both Seed and Crop Protection and across all regions. Transforming our cost structure remains a priority for Corteva to deliver on our targeted earnings growth. We demonstrated our commitment to cost reductions in 2020 by managing spending and delivering on our productivity programs. These savings were mostly offset from headwinds that we had anticipated, such as higher input costs and investments to support growth, in addition to unfavorable currency.

Despite these hurdles, we delivered solid operating EBITDA improvement for the year. Turning to the balance sheet, we continued to strengthen our financial position as we ended the year with cash and investments of roughly $3.8 billion. Further, our cash net of debt improved by approximately $1 billion over prior year as a result of the organization's focus on disciplined capital deployment and strong execution on working capital productivity. The company made progress on returning cash to shareholders, with more than $660 million returned via dividends and share repurchases.

Looking ahead, we see 2021 as a year in which we will accelerate on our path and expect to capitalize on the significant momentum we have built, as the investments we have made since 2017 begin to drive substantial earnings improvement.

Our entire team is focused on executing to deliver further value for shareholders from a number of in-flight strategic initiatives, including the ramp up of Enlist, the launch of Brevant in the U.S. retail channel and the continued advancement of our Crop Protection pipeline following 2020 where we obtained more than 140 registrations globally for new active ingredients and formulations that we will start selling in 2021.

We recognize that our 2020 performance was not where we need to be in terms of realizing the full operating leverage from organic growth and productivity programs in our earnings. For 2021, I am confident we have made the necessary adjustments and are well-positioned to deliver 15% to 20% operating EBITDA improvement for the year, including more than 200 basis points of margin improvement as the organization remains focused on executing on our targeted productivity actions.

On capital allocation, you may recall that we discussed last quarter that we plan to accelerate the completion of our $1 billion share repurchase program by the end of 2021, which was six months ahead of our initial plan. Given our current cash position and outlook for 2021, we expect to complete most of the repurchases by mid-year while maintaining our strong balance sheet and investing for growth.

Bottom line, we view 2021 as a big step forward for Corteva and I am confident we remain on track and laser-focused on delivering on our mid-term targets.

Turning next to slide 5 and briefly touching on 2020 performance for total company. For sales, strong organic growth in both segments and across all regions led to improved performance compared to our revised guidance, with double digit organic growth for the year in both Latin America and Asia Pacific. Continued penetration of new and differentiated technology drove the increases, including 2 percent pricing in our corn and soybean portfolios globally.

On operating EBITDA, we delivered 5% improvement for the year, exceeding our expectations compared to our revised guidance, as organic growth and cost and productivity actions were partially offset by higher input costs and an unfavorable net currency impact. On currency net of pricing, results were better than we had anticipated for the year as the teams delivered strong execution on local pricing coupled with favorable movement in exchange rates late in the fourth quarter.

As a result, despite a 15 basis point decline in the fourth quarter on the absence of prior-year divestitures, we extracted 33 basis points of margin expansion for the year, establishing a strong foundation for solid growth moving forward.

Shifting discussion to the market backdrop on slide 6. While more resilient than some other sectors, the ag markets faced unexpected impacts resulting from COVID-related disruptions. Throughout the year we observed tremendous volatility, including commodity demand levels, acreage levels, and foreign currency exchange rates. As our business is highly sensitive to these movements, we have closely and continuously monitored market conditions and remain agile to adjust our actions accordingly.

As we entered the fourth quarter fundamentals shifted, and the outlook began to improve. Commodity demand has stabilized considerably with constructive trends out of China on grain purchases from the U.S. This trend, coupled with lower yields for the 2020 U.S. crop and uncertainty in Brazil, has led to higher commodity prices, which also leads to improved outlook on farm income levels – resulting in the highest levels we have seen in 7 years. Government stimulus payments in the U.S. are also supporting farm income improvement.

After two straight years of unprecedented impacts from weather and the pandemic, we are pleased to see signs of a more favorable market environment for 2021. Taking our operational momentum into consideration, we are encouraged as strengthening ag fundamentals add additional support to our expectations to further accelerate our strategy and deliver strong growth in 2021.

Now moving to Slide 7 for full-year highlights on the top-line performance from our teams around the globe. In North America, we delivered organic sales growth of 4% for the year, powered by high-performing technologies like Qrome corn seed, which provides growers an approximate 8 to 10 bushel per acre yield advantage over comparable products. In soybeans, as the recovery in planted acres helped volumes, we drove 2% pricing with a yield-advantaged lineup and disciplined execution by our teams.

We also continued to make progress in accelerating the ramp-up of our Enlist system. While we entered 2020 expecting Enlist E3 soybeans to represent just 10% of our soybean volume, we finished the year well ahead of those expectations at approximately 17% of our volume and on 20% of total US soybean acres. That has helped drive strong early demand for Enlist herbicides, which delivered $140 million in fourth quarter sales, more than double the prior year period. The full Enlist system delivered approximately $440 million in sales for the year, and we could not be more excited about how the system is gaining traction in the market.

In EMEA, organic sales grew 8% in 2020 on strong demand for new and differentiated Crop Protection products, such as Arylex and Rinskor herbicides. Arylex is a product we are particularly excited about, as it progressed through the European regulatory process faster than any product I can remember in recent years and really exemplifies our advantages in sustainable chemistry solutions – an area of growing demand where we have highly effective products in the market and in our pipeline. In Seed, we were able to drive volume and price gains as a result of our route-to-market expansion in Russia and Ukraine as well as share gains in corn.

While significant currency volatility from the Brazilian Real weighed on net sales in Latin America, we delivered 17% organic growth for the year. Here, we executed on market share gains in both Seed and Crop Protection, and gained meaningful market share in the Brazil Safrinha market, while we continued to drive adoption of our novel crop protection products. The teams displayed strong execution on managing volatility of the local currency, which is evident in the $150 million in pricing for currency in Brazil for the year.

In Asia Pacific, we realized 13% organic sales growth compared to prior year on both volume and price improvements. This progress is another proof point of continued penetration of our new technology, as we drove adoption of Rinskor and Arylex herbicides, as well as other advantaged products like Spinosyns insecticide. During the period, we also benefitted from strong demand for seeds in India.

Moving to slide 8 for a more detailed review of our 2020 operating EBITDA performance. We delivered strong price/mix benefits of $210 million and volume benefits of $160 million from continued penetration of our new and differentiated technology across all regions – representing important progress on our targets. Through these actions, we delivered $100 million in earnings improvement on sales growth of $250 million of new crop protection products in 2020. At the same time, we drove seed share gains in Europe and Latin America. Seed pricing improved operating EBITDA for the year, led by 2% improvement globally for corn and 2% improvement for soybeans in North America.

On costs, we delivered approximately $30 million in net operating EBITDA improvement for the year. This improvement reflects execution on $230 million in productivity and cost actions which were largely offset by higher input costs and reinvestments to accelerate future growth and profitability. Other was a headwind for 2020 and predominately reflects the impact of asset divestitures in 2019.

Lastly, gross currency impact to operating EBITDA was approximately $330 million before pricing, and was predominately due to the devaluation of the Brazilian Real. To offset this headwind, the local teams delivered approximately $150 million in pricing for currency, resulting in a net currency headwind of approximately $180 million for the year.

Our growth initiatives are taking hold and we continue to take action to reduce costs and drive productivity across the organization. Yesterday, we announced a restructuring program that includes facilities consolidations, footprint efficiencies, and headcount reductions. This is part of delivering on our broader productivity programs. We are confident that we have reached the point where the investments we have made over the past few years will begin to accelerate earnings growth in 2021 and beyond. Now I'll turn it over to Greg to provide more detail on our results and the 2021 outlook.

**Greg Friedman**
EVP & Chief Financial Officer

Thanks, Jim. Moving to slide 9 and a more in-depth look at our performance in the Crop Protection segment, organic sales for the fourth quarter grew 21%, driven by an 11% improvement in volume and a 10% improvement in price. Robust demand for Enlist herbicides coupled with fall applications of optinyte in North America drove organic sales up 31% over prior year. Strong demand for our new products and pricing actions to offset currency also led to organic growth of 21% in Latin America and 17% in Asia Pacific for the quarter. Coupled with our productivity actions, this growth drove an approximate 70 basis-point operating EBITDA margin benefit for the segment in the quarter, despite the net impact of asset divestitures in 2019.

For the full year, organic sales increased 11% supported by continued growth in new products and in our differentiated Spinosyns insecticides, both up double digits on an organic basis over prior year. This growth was partially offset by our strategic decision to phase-out chlorpyrifos and a ramp down of selected low margin third-party products.

The overall Crop Protection result reflects price and volume gains in all regions, showing the balance and diversity of our new and differentiated products globally as well as our ability to grow organically above the market.

Despite this strong organic sales growth, operating EBITDA for the segment has declined for the year due to the impact of currency, coupled with higher input costs, investments to support growth, and the impact of asset divestitures in 2019.

On costs, as we mentioned last quarter, we have taken several actions starting back at the completion of the merger in 2017 to streamline our manufacturing operations to drive better operating leverage in Crop Protection. Given the regulatory approval requirements in each of the jurisdictions where we sell our products, it takes several years for the benefits of our asset footprint actions to impact the bottom line. We should begin to see those benefits in 2021.

On currency, we have recognized approximately $150 million in pricing for the year to offset the weakening Brazilian Real, and pricing will continue to be a strategic lever for us going forward.

Moving to the Seed segment on slide 10, organic sales for the fourth quarter were up 9%, driven by strong Safrinha corn sales in Brazil and deliveries in North America and Europe on an early start to the season. Operating EBITDA for the segment declined for the quarter due to the impact of currency and higher commodity costs.

Full-year organic sales grew 6% due to the soybean acreage rebound and improved price in North America, market share gains in Brazil and Europe corn, and strong volume and price gains on new products, particularly Qrome, PowerCore Ultra and Enlist E3 soybeans. Overall, price and volume gains, coupled with productivity actions drove an approximate 190-basis-point operating EBITDA margin benefit for the segment for the year.

Turning now to slide 11, I'll provide our full year guidance for 2021. Starting with net sales, we expect reported net sales to be between $14.4 and $14.6 billion, up roughly 2% over prior year at the midpoint of the range with organic growth of about 3%. This primarily reflects the continued ramp of new products globally in both our Crop Protection and Seed segments, partially offset by the strategic decisions we've made in our Crop Protection portfolio to further drive margin improvement.

On operating EBITDA, we expect to deliver between $2.4 billion and $2.5 billion, an improvement of 17% year over year at the midpoint. With our expected top line growth and continued focus on delivering cost savings commitments, we expect to improve operating EBITDA margins by over 200 basis points on a total company basis.

Turning to operating EPS, we expect to deliver between $1.85 and $1.95 per share which would represent a 27% improvement over 2020 using the midpoint. We have provided supplemental information on our guidance in the appendix of our presentation.

Focusing on Operating EBITDA, slide 12 provides our key assumptions. Starting with Seed, global demand for agricultural products continues to be strong. If new crop prices sustain current levels and weather remains favorable for a normal spring planting pace, we anticipate combined U.S. 2021 corn and soybean area will increase between 5 and 8 million acres. Based on relative commodities prices, we expect the planted area increase will be heavily biased towards soybeans. We will refine our assumptions when market data is available as part of the March prospective planting estimates published by the USDA.

In terms of Enlist expectations, consistent with what we shared on our third quarter call, we believe we could have greater than 35% of our units in Enlist E3 next year, and anticipate as much as 30% of the soybean units in North America will carry the Enlist E3 trait.

On seed pricing, we expect to maintain our 2020 momentum and continue to extract value for yield-advantaged technology in corn globally, including further penetration of Qrome in our corn lineup. Turning to Crop Protection, we expect to deliver continued growth in our new product sales. This growth is underpinned by strong market demand for Enlist and Arylex herbicides and continued penetration of Isoclast insecticide globally. In total, we expect new crop protection products to contribute approximately $300 million in incremental sales growth during 2021.

With respect to our differentiated technologies, we expect to release an additional 10% of spinosyns capacity in 2021, resulting in approximately $80 million of additional sales opportunity, as demand will continue to exceed supply for this product in a growing, targeted segment of the market.

As I've mentioned, we have made strategic decisions to phase-out chlorpyrifos and to ramp down selected low margin third-party products. While these changes are accretive to our margins, we do expect an approximate $75 million headwind to earnings in 2021 as a result of those decisions, which is included in our volume assumptions.

Moving on to costs, we are targeting approximately $150 million in net cost savings in 2021, which includes $250 million in savings from our productivity programs, mostly related to the manufacturing and supply chain rationalization work we have underway in Crop Protection. We also expect the majority of our COVID-related savings from 2020 will be sustained in 2021.

These savings will be partially offset by an approximate $100 million headwind in seed input costs as a result of higher grower compensation costs due to rising commodity prices, along with unfavorable yields in Europe.

Finally, on currency, we expect a headwind in 2021 given the change in the year over year rates for the Brazilian Real and seasonality. Pricing will continue to be a lever to offset this impact as our commercial teams in Brazil actively price for changes in local currency. We anticipate we will recognize approximately $100 million in pricing for the year reflecting a rate of approximately 5.50. Through our dynamic pricing coupled with the financial instruments we have in place, we expect to further reduce volatility in our guidance and will continually monitor movement in local currency rates as that could more directly impact our ability to price for currency.

Turning now to slide 13, I'll provide an update on our capital deployment targets over the mid-term. As a result of our strong operational performance throughout 2020 coupled with effective working capital management, we ended the year with approximately $3.8 billion in cash and investments. That's after returning more than $660 million to shareholders this year through dividends and share repurchases.

Building on this momentum, we expect to generate between $3 billion and $3.5 billion of operating cash flow in total for 2021 and 2022 combined, largely driven by earnings growth and continued focus on working capital productivity.

Taking a look at the potential uses for cash, we have outlined several key priorities. Our first priority is to maintain a strong balance sheet with financial flexibility to support our industry leading business model, which will allow us to fund investments in the business annually. These investments will reinforce and renew our innovation and market capabilities.

We also continue to explore paths to optimize our portfolio through opportunistic bolt-on M&A, including fruit and vegetable seeds, digital technology, and biologicals.

Finally, we are committed to accelerating the return of cash to shareholders through dividends and share buybacks. In short, we see tremendous opportunity to return capital to our shareholders over the mid-term. As you can see, we view the cash generation capabilities of this business as very strong, and we are excited to share more details as we move forward in our journey. With that, I'll turn it back to Jim.

**Jim Collins**
Chief Executive Officer

Thanks, Greg. We have made tremendous progress in the short time we've been an independent company, but we know we have more work to do.

As our recent results and guidance indicate, we are well-positioned to accelerate value creation in 2021 and beyond, including: Progressing on our products through the ramp-up of our proprietary Enlist system and strengthening our advantaged multi-channel, multi-brand route-to-market; continuing to transform our Crop Protection portfolio and enhance our higher value product mix; and further streamlining costs and disciplined execution on our productivity actions.

We will also maintain our balanced capital allocation program, continuing to return cash to shareholders even as we invest in long term sustainable growth. Corteva's Board and management team are fully aligned on a strategy to deploy our competitive advantages to deliver increased value that is durable.

Our plan is solid, we are executing, and it is working. At the same time, we are always open to perspectives that benefit all of our shareholders. At Corteva, we believe in the fundamental importance of listening and incorporating ideas that will help advance our mission and our objectives – and we continue to do that.

While I am pleased with our progress, I am not satisfied with our relatively flat earnings over the past three years. We have learned, adapted, and are now very well-positioned to accelerate our growth and deliver on the tremendous opportunities we have created through our targeted investments and disciplined emphasis on costs and productivity.

So as I consider our path ahead, there is no doubt that we have aligned our culture and gained the trust of our customers. And at the same time, we have the right products, our portfolio transformation is underway, and we have the productivity programs in place to deliver our future. Through disciplined and focused execution, we are confident this plan will deliver meaningful earnings growth and margin expansion in the near-term and significant sustained long-term value for all of our shareholders, and importantly puts Corteva fully on-track to achieve our mid-term targets. I'll hand the call back to you, Jeff.

**Jeff Rudolph**
Investor Relations Director

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

**Operator**

[Operator Instructions] We'll take our first question from Joel Jackson with BMO Capital Markets.

**Joel Jackson**
BMO Capital Markets, Equity Research

Hi Good morning, everyone.

**Jim Collins**
Chief Executive Officer

Good morning, Joel.

**Joel Jackson**
BMO Capital Markets, Equity Research

Jim and Greg, as you look at your 2021 bridge on slide 12, could you maybe outline where you think the guidance is most conservative and where you think it's most aggressive? Thank you.

**Jim Collins**
Chief Executive Officer

Great. Thanks. Thanks, Joel. And yeah, as we've said in the opening comments, 2020-2021 is a big step forward for us and I really believe we've reached an acceleration point given the investments and the strategies that we've been putting in place since 2017 and believe they will drive substantial earnings for the years ahead. And as a starting point for 2021, I think you've got to look at that fourth quarter momentum that. That momentum is there and it's real and it gives you a strong sense for where that growth is going to come from. So, as we guided for 2021, as you see on the chart, a 15% to 20% improvement in EBITDA and that's a 200-basis-point improvement in EBITDA margin. So, I believe that guide is strong and it's realistic.

And as you've asked, let me give you some proof points on why I have some confidence in it. Two-thirds of the improvement in the business this next year is going to come through our Crop Protection business. And that's tied to the productivity improvements that we put in place a number of footprint reduction projects as they have started to flow through cost of sales. And you can really begin to see that in our CP margins. You add to that the continued ramp up of either the new products that we've talked so much about 300 or so million dollars of new – incremental new product sales and then you start to unleash the spinosyn capacity that we have been investing in. And so, overall, you get about $400 million of growth there. And then all of that on Crop Protection is net of now the strategic decisions that we made to exit a number of key products. So, while those decisions have been headwinds in the past, we've got those behind us now. So, the numbers we're talking to you about are net numbers.

And then about a third of that improvement next year is tied to our Seed business. And it's really got to start that discussion by just looking at Latin America, the tremendous momentum carried in the fourth quarter. And then you add to that expectations of 5 million to 8 million acres of new crop coming back into corn and soybeans in North America probably heavily weighted to soybeans but it's real out there. You can see it tied to the really strong demand that's in the marketplace and that's being reflected in commodity prices.

And then the other confidence I had in our Seed business is with respect to pricing. You know, you look at what we delivered in 2020, you know, kind of 2% price improvement in corn and 2% price improvement in soybeans globally, we've got a track record now there and so we're going to count on that track record.

We will have a little headwind in the Seed business tied to commodity prices and costs of sales. And then don't forget about Brevant as we're thinking about the bridge next year. We're just scratching the surface of what Brevant and as well as Enlist is going to be able to deliver for us. So, I think this is a strong and realistic guide for 2021. And I have a lot of confidence in this plan and my team that we can deliver that.

**Operator**

We'll take our next question from David Begleiter with Deutsche Bank. Please go ahead.

**David Begleiter**
Deutsche Bank AG,
Research Division

Thank you. Good morning. Jim.

**Jim Collins**
Chief Executive Officer

Good morning, Dave.

**David Begleiter**
Deutsche Bank AG,
Research Division

Good morning. On your 2022 target which implies about, I think about $2.95 billion at the midpoint, you bridged that roughly $500 million increase versus 2021 vis-à-vis costs, new products, productivity, etcetera?

**Jim Collins**
Chief Executive Officer

Great, David. Thanks for the question and you're right. In our outline, our prepared remarks today, we really are affirming on midterm targets. And that's that with 12% to 16% EBITDA growth using that 2019 as a baseline. So we're not going to provide guidance for 2022, specific guidance for 2022. But what we do see that continued momentum that I was just talking about that we have going into 2021. And so, it's a little hard to sit here today and predict the market in 2022. But we can talk about the levers that are still going to be within our control that have given me confidence to confirm those midterm target. And starting Seed with really Enlist.

And in 2021, you know, we're just scratching the surface on the margin lift that Enlist can deliver for us. By 2020, we're really in to the noticeable improvement in net royalty expense as we not only ramp up the top line revenue but we ramp up the proprietary portion of those sales that are in Corteva germplasm. And then we're going to continue to see improvement in the rest of our portfolio in a few other areas. And then I mentioned, I always need to keep reminding folks about Brevant.

Again, 2021, just it's going to be a good year, a good start year for us. But 2022 will allow us to continue that momentum into that retail channel with Brevant. On Crop Protection, the main story there is momentum. We delivered $250 million of new product incremental revenue in 2020, 2021 is going to be another strong year with about $300 million of incremental from those new products.

We have a 140 new product registrations that we received right here at the end of 2020 that'll just start having momentum in 2021 and you'll feel that again in 2022. And then, on top of the top line revenue that we'll get from Crop Protection, by 2022, you're really starting to see the compounding effects of better margins on that new chemistry as higher volumes flow through that same asset base and take up we start to spread that fixed costs over a much broader base. So, you're seeing some of that in 2021. But as those new products sales continue to ramp, it shows up in 2022.

On top of that, the further improvements that you're going to see from the asset footprint work that we're doing and we've got a good start of that this year coming up in the short next year. So all of these levers we really have within our control. And again, while it's early, we've still got 2021 to get through and again tough to predict what that market will look like, but we've got our hands firmly on these levers and that's what's going to propel us to those mid-term targets.

**Operator**

And we'll take our next question from Vincent Andrews with Morgan Stanley.

**Vincent Andrews**
Morgan Stanley
Research Division

Thank you and good morning, everyone. Jim if I could ask in seed production costs, I believe they were up in 2020 somewhere in the $75 million to $100 million range and most of that was on production issues and I can add soy and then this year talking about another $100 million. So, on a two-year stack, my math is right, you're up $175 million to $200 and I guess my question is if we have sort of normal production in the US and Europe this year and the futures for corn and soy is correct and commodity prices are lower into next year, does that mean there's going to be $170 million to $200 million seed production cost tailwind in 2022 or would some of that be eaten up by other costs, maybe Xtend launch costs or anything else? How should we be thinking about that bridge? Thank you.

**Jim Collins**
Chief Executive Officer

Yeah. Thanks, Vincent, for the question and you're right. For 2021, we are expecting approximately $100 million in seed input cost headwinds. Those are predominantly due to the higher commodity prices for soybeans that impacts are grower compensation program, the way we compensate growers for producing seed. And we also had lower seed field yields in Europe. It was a tough seed production year.

So just as background, we go out and we contract with independent growers to produce our commercial seed. And they have the opportunity to lock in a commodity price rate during a window and especially with soybeans as we saw that run up late in the season, they locked in at higher rates.

We go into every year with our best foot forward. So as we put seed in the ground in 2021 for 2022 production, clearly, we will lack those higher commodity prices and if we see some tail off there, we'll benefit from that. And we'll expect to always have, you know, good solid yield production in our fields.

We work with a lot of irrigated fields so we try to take the weather out of that as much as possible. So we're – we've seen good trends and I think we've got a lot in play that should help support us as we come out of 2021 into 2022.

**Operator**

We'll take our next question from P.J. Juvekar with Citi.

**PJ Juvekar**
Citigroup Global Markets, Inc.

A couple of related questions Jim on Seeds. Are you seeing that farmers are willing to buy higher priced seeds given that they have strong disposable income this year? And just related to that, on your fixed minimum royalty payments that you have through 2023, you know, which is I think that's more of a cash flow item.

Can you talk about the income statement impact as you ramp up volumes of Enlist E3 and ramp down volumes of round up Round up Ready 2 Yield? Thank you.

**Jim Collins**
Chief Executive Officer

Great. Good morning, P.J. I'll talk to the pricing question and maybe have Greg walk you through the impacts of the way that balance sheet and the royalties flow. As we think about the market next, this season 2021, it's always a competitive marketplace and it will be just as competitive as we saw in 2020 even with the commodity pricing backdrop. So, we're going to continue to go out there and we get paid for the value that we deliver to growers and especially when it comes to the yield advantage technology that we're putting out there.

And most notably, we really do see that in corn. And we've established a really strong track record that I mentioned earlier of extracting that value for our technology. And all you got to do is go back and look at our 2020 performance where we delivered 2% pricing in corn and soybeans. And that's globally. So, you know, this is always a market specific phenomenon. But when you step back and look at our performance last year, we did that everywhere.

And so – as we sit here today, we're very pleased with the pace of the orders that are coming in in both our pioneer brand in North America as well as Brevant brand through those channels. And so, I'm confident on that value question that we'll carry that momentum into 2021. Greg, talk a little bit about royalties?

**Greg Friedman**
EVP & Chief Financial Officer

Yeah. Say on royalties, we have – we are in 2020 a relatively flat on our royalty spend. And we'll continue into 2021 pretty much on the same basis. As we go into 2022 and start ramping up more of our proprietary products in germplasm, we'll start to see that that royalty expense come down. And that will continue beyond 2022 through the rollout of Enlist through the end of the decade. We do, as you know, have some minimum payments that we make every year. Those will end in 2023.

**Jim Collins**

Thanks, PJ.

**Operator**

We'll take our next question from Arun Viswanathan with RBC Capital Markets.

**Arun Viswanathan**
RBC Capital Markets LLC

Great. Thanks for taking my question and congratulations on the progress in 2020. I just wanted to, I guess, ask about the margin progression evolution that you're seeing you achieved and you kind of see over the next couple years. So, it looks like you're guiding to about a 17% EBITDA margin at the midpoint of 2021 and you've outlined some new restructuring initiatives or footprint optimization and such. Do you see maybe this is a first step and maybe some other projects down the road? Maybe you can expand on the opportunities that you see. And if so, where do you think margins ultimately can get to and what would it be dependent on? Would it be dependent on maybe further market growth or inorganic growth or maybe some different asset structuring or potentially even some different business lines like formulation or anything like that? So there's a lot in there but maybe you can address some of that. Thanks.

**Jim Collins**
Chief Executive Officer

Great, Arun, and thanks for your comments as well. You know, due to the merger, we did inherit a number of US manufacturing locations that have been more expensive than, you know, what I had personally experienced in the past around a more outsourced or a more localized approach to the business.

So, you know, we didn't wait to take any actions to start optimizing the supply chain. Since merged, since the close of the merger, we've shut down nine manufacturing assets and we are starting to see the benefits of those lower cost supply chains. So, I do believe that 2021 is really an inflection point for us. You really haven't seen much of the benefits of those actions yet and that's kind of related to the amount of time that it takes to clear the regulatory hurdles every time you make a change in your supply chain, you have to go back and resubmit dossiers to regulatory authorities in every country around the world.

So, you saw some restructuring, the 8-K that we filed that had restructuring in it. That's just part of those programs that we've talked about and we'll just kind of continue to roll forward. So, in our guides, in our confirmation of our mid-term targets, we've included those strategic decisions in those guides. It's one of the tools that we have and one of the ways that we get there and have confidence that they're achievable.

And then we're always looking for opportunities and new ideas. We take every one of our active ingredients that we produce and we ask ourselves the question can we be the lowest cost producer of that product. And when that answer is no, the teams began looking for alternate sources. And when that answer is yes but we need project work to get there, we began to put those initiatives in place to drive that.

So, the best example I could point you is if you look at 2021's EBITDA improvement, two-thirds of that improvement is going to be coming from those initiatives in our Crop Protection business. So, I got a lot of confidence, a lot of great visibility of those initiatives that are in flight and exactly where we are in each one of those manufacturing units and those cost of sales points to be able to point to that.

**Operator**

All right. We'll take our next question from Jeff Zekauskas with JPMorgan.

**Jeffrey Zekauskas**
JPMorgan Securities LLC

Thanks very much. I have a question about your conservative operating cash flow guidance. And that your 2021/2022 total is $3 billion to $3.5 billion. So, let's call it, yeah, I don't know, $1.7 billion a year.

This year, your operating cash flow was $2 billion. If you subtract out your working capital benefits, maybe it's $1.7 billion. So you're sort of saying that you're operating cash flow you know is not really going to change very much from that base. And you know, there'll be a little bit more working capital. But your EBITDA you think will go from like $2 billion to $3 billion over up to 2022. So, I don't understand why you would be generating so much EBITDA and so little operating cash flow.

And then secondly your pension liability really went down in the fourth quarter. I think sequentially from something like $5.8 billion to $5.7 billion. But interest rates really fell year-over-year. And I would have thought that there would have been an adjustment in the opposite direction. So, can you explain what happened to pension? And can you explain why there's so little growth in operating cash flow?

**Jim Collins**
Chief Executive Officer

Great, Jeff. Thanks for the question. Let me just start by saying I'm really proud of how our team performed in 2020 from a cash flow perspective. You've seen the numbers that we talked about and also the plan that we put in place for 2021. And that includes returning about – for 2021 when we complete the share buyback and the dividends, we're going to return $1.1 billion to shareholders.

So, let me turn it to Greg to talk a little bit about the future looking on cash flows in that balance as you talk with EBITDA and for the discussion of what happened to the pension.

**Greg Friedman**
EVP & Chief Financial Officer

Yeah. So specifically on cash flow, we had a very strong cash generation year, as you commented this year. A lot of that was driven by real specific actions that we took time to manage our working capital and also manage our capital spending particularly during the pandemic. What also happened towards the end of the year is we saw some very good cash generation by our customers through the government programs that they receive and benefit from. And in addition to that, the rise in commodity prices towards the end of the year also generated some incremental income for our customers. And we got the benefit of that with some cash generation at the end of the year.

As we go into 2021 and beyond, we are looking at increasing our capital spending. We were at $475 million in 2020 and you'll see in our guide that we've included CapEx at about $550 million in 2021. So, we put some of our CapEx on hold and we plan to reinvest in our growth projects in 2021 and beyond.

In addition to that, we do expect to return to a more normal cash credit mix with our customers. So there will be some changes in working capital as we move through 2021 and assuming a more normalized cash credit mix.

**Jim Collins**
Chief Executive Officer

Great. And you want to talk about pensions?

**Greg Friedman**
EVP & Chief Financial Officer

Yeah. So, on pensions specifically, we saw a net decrease in the obligation and that was driven by two things. Number one, an increase in the gross obligation given discount rates and that was offset by our asset returns.

**Jim Collins**
Chief Executive Officer

And the other thing, Jeff, just to highlight is our unfunded balance declined and that was mostly due to changes in the OPEB obligation as a result of some changes that we made in benefits.

**Operator**

And we'll take our next question from Jonas Oxgaard with Bernstein. Please go ahead.

**Jim Collins**

Good morning, Jonas.

**Jonas Oxgaard**
Sanford C. Bernstein & Co. LLC

Hey, Jim. Good morning. You mentioned earlier that you were seeing some share gains in South America crop protection. I was wondering if you could expand on share gains in corn, soybean and crop protection in other regions? And then as a follow-up, how do you see that evolving this year?

**Jim Collins**
Chief Executive Officer

Yeah. Great, Jonas. Thanks. We are confident that we gained corn market share for sure in Europe and in Brazil, both in Safrinha season as well as summer. And we've got just fantastic line up and our teams really executed very, very well. You know, it's a little too early to call on share gains in North America. You know, we really have to get that last round of USDA data that gives us the plantings of what happened right down to kind of a county level. So, it's up – it – we'll have that final call on North America in mid-March.

But look, I'm confident that we held share at least for sure in corn in North America while delivering above market share, above market pricing gain. So, our story in North America was really all about value. And in in soybeans you know from a global perspective, we saw some slight declines in volumes. But for us, it's the US that really matters. And our US Seed volumes and soybeans were up. So I'm pretty confident in soy as well. We held, if not, we were up slightly. And one more time in soybeans, you know, that 2% pricing on a look-back basis shows that we not only we held if not gained slightly and drove much higher value.

So those are the big markets. But maybe Tim, you want to share either the broader perspective of how we're doing on market shares and other markets around the world, other crops?

**Tim Glenn**
EVP & Chief Commercial Officer

Yeah, Jim. Maybe add a couple comments on the Crop Protection side especially in, you know, looking back to 2020. And then I think we can comfortably say we gained share in Crop Protection I think on a global basis. You know we obviously are still in the early days. And we don't have all the competitive metrics in place. But that certainly seems like on a global basis that we would have outperformed the market on CP as well as I think we can confidently say in EMEA as well as Asia-Pacific, we've been ahead of the market really throughout the year and had strong finishes there.

In North America, we've sort of been hanging with the market for most of the year in Crop Protection and we had a really strong finish to the year as well. And so, we'll see where that could benefit, maybe little optimistic that we will end up above the market for North America with that strong finish. And in Latin America, we – it's fair to say that we started off the year behind the market in the first half. We felt like we were catching as we went through the third quarter and a really strong finish in the fourth quarter. And as we anticipated and again I think much like North America, we have some reason to believe that once everything's tallied up and that we're going to be certainly with the market and maybe just ahead of it on the on the Crop Protection side. So, in conjunction with the Seed share position that Jim talked about, I think we should feel really proud of how we performed versus the market in the Crop Protection side again with strong pricing just for it.

**Jim Collins**
Chief Executive Officer

Yeah. Great, Tim. Thanks for mentioning the Crop Protection. Just you mentioned Latin America right there at the end, Jonas, our insecticide business in the fourth quarter in Latin America was up 36% and our fungicide business and Latin America up 28%. So as Tim said, really, really strong close for the year by that team. And on a full-year basis, we were also up similar numbers. So, we're encouraged by our CP market shares there as well. Thanks, Jonas.

**Operator**

Our next question comes from Kevin McCarthy with Vertical Research Partners.

**Kevin McCarthy**
Vertical Research Partners LLC

Yes. Good morning. Just to follow up on capital allocation it sounds like you're going to be mostly done with your share repurchase commitment by the middle of the year. So, how would you describe, you know, potential for future repurchases versus, you know, the M&A opportunities that you described, Jim, in fruits and vegetables digital and biological? And then related to that for Greg, if you can comment on other cash calls or expectations for 2021 in terms of, you know, pension and OPEB, PFAS and any other extraordinary items? Thank you.

**Jim Collins**
Chief Executive Officer

Thanks. Thanks, Kevin. As we've mentioned in our message earlier, we're going to continue to evaluate opportunities to return capital to shareholders. And we view that as a priority in our overall scheme for capital allocation. We mentioned that we are committed to executing the current share repurchase program and now plan to complete as you said most of that program by mid-2021. That is a further acceleration from where we were and where we communicated back in 3Q.

And then on a look forward basis, if you look at that comp combined with our dividend, will be a little over $1.1 billion return to shareholders. And at that time, as that program closes out, we'll take a view of all of our obligations and sit down with our board and talk about what's next after that. But look I'm confident that returning capital to shareholders is a priority for me and it's a priority for this board. And we'll certainly keep you informed as our thoughts around that evolve. Greg?

**Greg Friedman**
EVP & Chief Financial Officer

Yeah. On cash calls, you know, you mentioned pension and OPEB and specifically with respect to the pension, we continue to be confident that we don't have a required contribution to the pension plan in the next couple years. In fact, as I mentioned earlier, our returns this year you know exceeded the cost of the plan. So, our funded rate improved. You'll see the details of all that in the 10-K when we issue that in the next several days. So, I apologize for not having the details readily available for you for that. Regarding OPEBs, no additional cash cost other than what we normally see on an annual basis. And as Jim mentioned with the changes that we made to the plan that that reduced the liability significantly.

**Jim Collins**
Chief Executive Officer

Thanks, Kevin.

**Operator**

Our last question will come from Steve Byrne with Bank of America.

**Steve Byrne**
Bank of America Merrill Lynch, Research Division

Yeah. Thank you. Good morning. Jim, mentioned seven-year high on crop commodity prices and if you look at another way, the growers that are locking in harvest month futures prices today versus what they were doing a year ago, they're looking at a $100 an acre or higher revenue today than they were a year ago. And so, my question for you on that is how do you think that most affects the decisions those farmers make? Is it seed genetics? Is it a shift to branded crop chemicals or is it application rates? How do you think that most affects your verticals? And then the second question there would be you're 2021 guide of a 3% sales growth is the same as it was in 2020. Is it reasonable to see that is not really – know the road but not to misguide?

**Jim Collins**
Chief Executive Officer

Great. Thanks. Thanks, Steve. Clearly, if improving commodity price markets, you know, helps the psychology of everybody involved and as we've been thinking of the farmers, always think about their decisions as investments in their future to drive productivity and yield. And so higher commodity prices means that they will continue to push for yield and be able to take advantage of that yield.

And what I like about what we're seeing right now is because we feel like the demand side of this equation that's driving those commodity prices is pretty durable for the one to two-year term as we look out. China's demand curve seems to be strong as they're rebuilding their pork industry. And we know we've got a demand for exports in other markets and strong demand for animal feed that we're seeing come back in North America and with the carryover stocks where we're seeing them.

So I like to believe that we have support for those commodity prices here for the next two or three years. And that's driving our acreage assumptions as well. I would expect 180 million, 182 million corn and soybean acres when you combine them, a little hard to call the split there but probably the best news we're hearing right now is we don't seem to be – it's going to favor soybeans. We know that any increases will go into soybean acreage but it's not coming out of corn. So it's really setting up for a more of a strong corn and beans.

When you look at our revenue guide for next year, as you mentioned, just remember that in that guide there's – that is a net top line revenue number and it's net of about $300 million of revenue that we phased out of from 2020 going into 2021, the first of those strategic decisions around Chlorpyrifos and then several other low-margin products, very, very generic and just probably not the right kind of products for our portfolio going forward. So, we're certainly in a mix enrichment and a refreshment of that portfolio and basically have the majority of those big strategic decisions now behind us. So, back to my comment earlier, I think this guide is a strong and a realistic guide with all of those elements really baked into it. And we still have a full season ahead. We're sitting here early in 21, a lot to go, but we're confident we've set this at the right spot. Thanks, Steve.

**Jeff Rudolph**
Investor Relations Director

Great. Well, thank you for joining the call today and we appreciate your interest in Corteva.

**Operator**

And that does conclude today's presentation. Thank you for your participation. You may now disconnect.