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Corteva, Inc. (CTVA)

Q1 2023 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Please stand by. Good day and welcome to the Corteva 1Q 2023 Earnings Call. Today's conference is being recorded.

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

#### Kim Booth

Vice President-Investor Relations, Corteva, Inc.

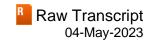
Good morning and welcome to Corteva's first quarter 2023 earnings conference call. Our prepared remarks today will be led by Chuck Magro, Chief Executive Officer; and Dave Anderson, Executive Vice President and Chief Financial Officer. Additionally, Tim Glenn, Executive Vice President-Seed Business Unit; and Robert King, Executive Vice President-Crop Protection Business Unit, will join the Q&A session.

We have prepared the presentation slides to supplement our remarks during this call, which are posted on the Investor Relations section of the Corteva website and through the link to our webcast. During this call, we will make forward-looking statements which are our expectations about the future. These statements are based on current expectations and assumptions that are subject to various risks and uncertainties. Our actual results could materially differ from these statements due to these risks and uncertainties including, but not limited to, those discussed on this call and in the Risk Factors section of our reports filed with the SEC. We do not undertake any duty to update any forward-looking statement.

Please note, in today's presentation, we'll be making references to certain non-GAAP financial measures. Reconciliations of the non-GAAP measures can be found in our earnings press release and related schedules, along with our supplemental financial summary slide deck available on our Investor Relations website.

# Corteva, Inc. (CTVA)

Q1 2023 Earnings Call



It's now pleasure to turn the call over to Chuck.

### Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Thanks, Kim. Good morning, everyone, and thanks for joining us today. We're really pleased to report another solid quarter and a solid We are really pleased to report another solid quarter and a solid start to 2023 where we deliver double digit organic sales and earnings growth alongside meaningful margin expansion. It is the first time we've crossed the 25% EBITDA margin threshold in Q1, which is a milestone for the company and our value creation journey and shows just how far we've come.

Today we are also updating our previously announced guidance for the full year. Net sales are now expected to grow 7% and operating EBITDA 13% at the midpoint over prior year. Operating EPS is expected to be in the range of \$2.80 to \$3. This outlook reflects the power of our strategy and the strength of execution in a dynamic Ag market.

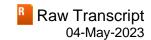
Strategically, we continue to make choices to strengthen our portfolio, mix and accelerate growth and margin expansion. Our actions are translating into higher quality earnings. We remain on track with regard to our 2025 value creation plan and are focused on continuing to deliver on our targets. Let me provide a few highlights of progress we're making in each business.

In seed, we recently announced the commercial launch of Seed Enlist. Our Next Generation Corn Rootworm Protection Products that includes the power of the Enlist weed control system. As a reminder, we expect the US soybean market penetration percentage for enlist to be in the mid-50s this year. [indiscernible] our growing retail brand, which is serving as a catalyst for growth in the medium term. We continue to see robust demand and market acceptance.

In crop protection, we continue to drive penetration of our recent technology launches with new product sales of approximately \$620 million, a 30% increase over prior year. This was led by products I can list and Arylex herbicides, which each grew more than 50% over the same quarter last year. I'm also pleased with the advancements we've made in all three of our frontier markets in the first quarter. We see tremendous opportunity in the high growth, high value areas of biofuels, specialty oils and proteins as well as biologicals. These growth markets will deliver increased optionality and value to our customers and allow us to work with partners to create new value chains and cropping systems that will increase both food and fuel security.

In biofuels, our collaboration with Bunge and Chevron will increase the supply of lower carbon renewable fuels in the US by using our proprietary winter canola hybrids in a new double cropping system. We are also collaborating with Bunge to develop and commercialize a more nutritious soybean meal for the animal feed industry in the US, aimed at reducing the use of synthetic feed additives. In Biologicals, we successfully acquired Stoller and Symborg in the first quarter. With the addition of these two strong companies, we have cemented ourselves as one of the largest players in this rapidly growing segment.

Biologicals are expected to represent about 25% of the global crop protection market by 2035, driven by increasing demand for effective, sustainable solutions. Importantly, the ag fundamentals remain constructive, underpinned by the profitability of farmers. There has been no change in farmer priorities. They are investing in productivity and yields and we expect that to continue. As anticipated, we are seeing buying patterns normalize something we haven't experienced in a few years. This dynamic is not surprising and is healthy for agriculture in the longer term and the strategic portfolio decisions we made last year will allow us to thrive as we enter this next phase of normalization.



Now let's go through more specifics on the market outlook. We continue to see tight grain and oilseed inventories around the world with crop prices above historical averages. Strong demand, combined with tight supply and weather related reductions in estimated yields, drove low stocks to use ratios for both corn and soybeans during the 2022-2023 crop year. We continue to believe that global grain and oilseed markets need two consecutive normal crop years to stabilize global supplies, and it's too early to tell whether this year will be a year of rebuilding. We expect these trends to continue throughout the year given current commodity prices and the fact that productivity on the farm from top ag technologies is the best way for farmers to manage their businesses.

Turning to the US planted area, we expect farmers to plant 92 million acres of corn, up 4% year-over-year and around 88 million acres of soybeans, essentially flat year-over-year. Projected farmer incomes are strong in 2023, so slightly lower than 2022 and the record we saw in 2021.

Finally, when we look at the Brazil market, the farmer is financially healthy investing in maximizing crop production and all indications are that they'll plant more soybeans and new corn this coming season than they did last year. In order to do this, they will need our technology to drive and protect yields. The strength in these two key markets is helping offset planted area and yield reductions in other parts of the world, including Ukraine and Argentina.

Let's shift gears to our 2025 value creation framework. In September, we announced a new financial objective to deliver \$4.4 billion of EBITDA on \$20 billion of revenue by 2025. To achieve this, we focused on four value catalysts to accelerate EBITDA growth and earnings quality. Portfolio Simplification. Royalty Neutrality. Product Mix improvements and operational excellence.

These are significantly under our control and we are making good progress in each area. We're planning on completing about 85% of our 32 planned country exits and about 60% of our AI exits by the end of this year. On our path to royalty neutrality, we expect to generate an additional \$100 million of EBITDA in 2023, largely driven by our ENLIST transition.

In crop protection. We are creating sustainable differentiated products with plans to launch Nine New Als by 2035 on top of the nine launched since 2017. And finally, on operational excellence, we're improved -- improvements across the company our driving price and productivity actions. We now expect to deliver approximately \$300 million and savings in just 2023 alone.

Disciplined execution against this value creation plan is expected to translate into compounded EBITDA growth. That would put us to between 21% and 23% EBITDA margins by 2025. This is a significant increase from where we started just a few years ago and it includes a sizeable increase in R&D investment.

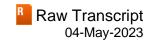
And with that, let me turn it over to Dave to provide details on our financial performance as well as updates on the 2023 outlook.

#### David John Anderson

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

Thanks, Chuck, and welcome everyone to the call. Let's start on slide 7, which provides the financial results for the quarter. As Chuck said and you can see from the numbers, we've had a strong start to the year compared to the first quarter of 2022. Organic sales increased 10%, with gains in both segments led by North America and EMEA. Global pricing was up 14%, with good price execution in both seed and crop protection. The pricing included management of currency headwinds, primarily in Central and Eastern Europe. Volumes for the quarter





are down as expected, reflecting the strategic portfolio actions in the exit from Russia. In total for the quarter, these exits represent \$190 million or a 4% headwind.

The Seed were down largely due to tight supply and drought conditions in Latin America, coupled with our exit from Russia. Crop production volumes were down 1% in the quarter versus prior year, with new product growth offset by unfavorable weather conditions in Latin America, in Asia-Pacific, and our previously announced product exits. The strong top line performance translated into operating EBITDA of more than \$1.2 billion for the quarter, an increase of 18%. Pricing, product mix and productivity more than offset higher input costs and currency headwinds driving more than 260 basis points of margin expansion.

Let's now go to Slide 8 where you can see the reported sales by business. Seed net sales were up 7% in the quarter to \$2.7 billion. Organic sales were up 10% on strong price execution. As we continue our strategy to price for value and also offset higher input costs, we delivered pricing gains in every region led by EMEA, which more than offset currency headwinds in that region. Seed volumes were down 7% versus prior year, with volume up in North America driven by soybean delivery timing and in APAC driven by demand for new technology.

These gains were more than offset by volume declines in Latin America and EMEA and EMEA seed volumes were down as expected due to our 2022 decision to exit Russia, coupled with lower corn-planted area. Now, excluding the Russia impact, seed volume would have been down 4% in the quarter.

Declines in Latin America seed volumes were largely driven by a shortened Brazilian spring season due to delayed soybean harvest and supply constraints in the region, as well as the strength of Brazil's fourth quarter 2022 as you recall growers in Brazil accelerated purchases last year with concerns regarding product availability and supply.

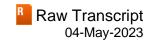
Crop protection net sales were up 5% compared to the prior year to \$2.2 billion, organic sales were up 10% in the quarter, driven by broad-based pricing gains, reflecting pricing for the value of our differentiated technology as well as offset higher raw materials globally in currency in EMEA.

Crop protection volumes were down impacted by an approximate \$90 million headwind from our strategic portfolio actions, notably the exit of commodity glyphosate and our exit from Russia. Crop protection was up 3%, excluding the impact of these exits. Continued penetration of new products added \$140 million of incremental net sales growth as customer demand for Enlist and [indiscernible] Herbicides was strong in the quarter. Currency headwinds on both business units was 5%, largely driven by European currencies. And finally, you recall, we closed on the biologicals acquisitions on March 1st, which added approximately \$19 million of sales in the quarter.

With that, let's go to Slide nine for a summary of the first quarter operating income EBITDA performance. Operating EBITDA increased more than \$190 million to \$1.23 billion. Pricing and product mix driven by customer demand for yield advantage technology more than offset higher costs and currency headwinds.

We incurred approximately \$360 million of market driven inflation and other across both businesses in the quarter. Seed saw higher commodity costs and yield impacts from dry weather in EMEA and Latin America. Crop protection raw material costs were up 7% versus prior year as we sold through higher cost inventory and we delivered approximately \$75 million in productivity savings, which partially offset these headwinds.

SG&A as a percent of sales was down 140 basis points compared to the first quarter of the prior year as we maintained disciplined spending and execution on cost actions and also reflects the timing benefit of commissions expense. Investment in R&D was up roughly \$50 million in the quarter, aligned with targeted spend increases to



support our leading position in Ag technology. Now you can learn more about the R&D pipeline and technology investments at our R&D Innovation Update call on May 9. Tim is going to provide more details on that at the end of this call.

Portfolio and other gains in the quarter were driven by \$7 million of EBITDA from the Biologicals acquisitions in the month of March, as well as a favorable impact from the absence of the remeasurement of an equity investment which was sold in the first half of 2022.

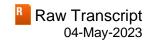
Currency was \$172 million headwind driven primarily by European currencies.

Turning to Slide 10, I want to provide an update on our full year guidance. The set up for Corteva in 2023 remains positive and we're raising our full year revenue, earnings, and cash flow guidance. Now, changes to the guidance are driven by the inclusion of the biologicals acquisitions as well as some favorability from the strong operational performance in the first quarter, which is also included in the full year outlook. We now expect net sales to be in the range of \$18.6 billion to \$18.9 billion or 7% growth at the midpoint. This includes approximately \$450 million of additional sales and biologicals.

Operating EBITDA is now expected to be in the range of \$3.55 billion to \$3.75 billion, an increase of \$150 million over our original full year guidance. At the midpoint, the updated range represents a 13% increase over prior year and includes approximately \$90 million from the acquisitions net of roughly \$20 million of integration costs. And importantly, as we're starting to see our strategic portfolio actions translate into higher quality earnings. We now expect EBITDA margin of 19.5% at the midpoint of guidance or 100 basis points of margin expansion over prior year. It's another indication we're on track to achieve the 2025 value creation framework targets. Operating EPS is expected to be in the range of \$2.80 to \$3 per share, an increase of 9% versus the prior year at the midpoint, \$0.10 higher than our original guidance reflecting improved operating performance as well as the earnings from the acquisitions, partially offset by the increased depreciation and amortization related to purchase accounting. We expect free cash flow to be in the range of \$1.2 billion to \$1.4 billion, an increase of \$100 million at the midpoint from our previous guidance. That increase largely reflects higher earnings, coupled with an update to the 2023 capital spending forecast.

And finally related to capital allocation, we remain committed to a balanced strategy returning excess cash to shareholders, while investing for growth. In the first quarter, we returned approximately \$360 million to shareholders via dividends and share repurchases, and we expect to complete a total of \$500 million of share repurchases for the year. With that, let's go to Slide 11. I want to provide some color on our outlook for the first half and full year. It's an important reference in light of the shifts in order patterns that we're seeing due largely to weather and reversions to more normalized conditions for supply chains.

Specifically, our first half seed growth will be driven by continued pricing momentum and increased US corn acres. However, seed volume growth in the US is expected to be more than offset by the shortened [indiscernible] season supply constraints in Latin America, coupled with approximately \$200 million headwind to volume related to our exit from Russia. For crop protection, first half volumes are expected to be down as growth from new products will be offset by more than \$200 million of strategic product exits. Additionally, we see customer buying behavior returning to historical patterns driven by improvement in supply chain reliability as well as higher interest rates particularly in Latin America. In LatAm, we saw significant growth in the first half of 2022 with more than one-third of Latin America's full year sales delivered in the period. In 2023, we expect the sales pattern to reflect more normalized timing, shifting more of the sales to the second half so more like pre-2022 order pattern for the region. Here's a couple of other summary points. As expected, cost inflation will be higher in the first half of the year due to the sell-through of higher crop production inventory and the seasonal timing of higher seed input



costs. We expect the rate of inflation to be high single-digits for the first half of the year, moderating to low to midsingle digits in the second half.

Currency headwinds will be heavily weighted towards the first half of the year, driven again by European currencies and the seasonal pattern of sales in EMEA and consistent with our previous expectations total company pricing is expected to be up mid-single digits for the year. The double-digit pricing gains reflected in the first quarter are expected to moderate as a portion of that pricing in the quarter was in response to currency headwinds in EMEA.

Operational efficiencies will drive improvement in SG&A. In fact, we expect that excluding the biologicals acquisitions, SG&A will be effectively flat compared to prior year. In filing approximately 80% of the full year EBITDA from biologicals acquisitions will be delivered in the second half, reflecting solar seasonal pattern.

So, in summary, we expect roughly 80% of our full year earnings to be in the first half of the year, which implies lower year-over-year growth in both revenue and EBITDA in the second quarter relative to the average that we are now forecasting for the first half of the year. And with that let's go to slide 12 and summarize the key takeaways. The year is obviously off to a great start with first quarter growth led by EMEA and North America. The quarter's performance sets us up well for another year of delivering results. While we are confident and we are on track to deliver our full year guidance we expect a greater percentage of revenue and earnings in the second half of the year compared to 2022, largely driven by supply chain improvement and normalization of customer buying behaviors. We're raising our full year guidance, largely driven by the biologicals acquisitions and operational performance. Importantly, we remain confident that we are on track to deliver on our 2025 financial targets. And with that let me turn it over to Kim.

#### Kim Booth

Vice President-Investor Relations, Corteva, Inc.

Thank you, Dave. On slide 13, I want to briefly share the key topics of our upcoming R&D innovation update. As a reminder, the virtual event will be held this coming Tuesday, May 9th at 9:30 a.m. Eastern. It will be a 90-minute webcast including 30 minutes of Q&A. Chuck and Sam Huffington, our Chief Technology and Digital officer, will provide more detail on our leading pipeline and insights into how and where we're choosing to invest in R&D. Registration details are available on our website and we look forward to your participation at the event. I'd also like to take a second to highlight that we released our 2022 Sustainability and ESG report on April 4th, which is available on our website. 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] Operator: [Operator Instructions] And our first question comes from Vincent Andrews with Morgan Stanley.

Q

Thank you and good morning, everyone. Just a question on pricing in Europe crop chem. The pricing was very strong and you referenced sort of pricing for value initiatives. So if you could just give us a little bit more detail on what you're doing there and how new or different it is. And then also, if you could just talk a little bit about US seed pricing, which came in at 7%, if could give us some color on soy seed pricing versus corn seed pricing. Thank you.

Δ

Good morning, Vincent. So I'll have Robert and Tim answer those questions. Just let me give you a couple other comments to set the stage when it comes to price. So as we mentioned in our prepared remarks, you know, we're seeing very good demand. The underlying demand on the farm is still strong and that underpins our forward thinking.

Obviously, it underpins the guidance that we put out today. And we're just seeing a willingness around the world for farmers to maximize yield and productivity. It is really one of the few tools they have to ensure that they're going to be profitable long-term. So maybe, Robert, you want to answer Vincent question on CP?

А

Yeah, absolutely. Thanks, Chuck. You know, like Chuck's talking about, you know, the underlying demand remains unchanged. So when you begun to look at, you know, what is priced for value, and when we talk about that, it's the same strategy, that we've had across the last year as well, where we say, you know, we're looking at our differentiated products are new products that give a new technology, a different technology to the growers that really helps them begin to add value to their farm and it's a -- it's an opportunity for them to be able to protect yield and improve yield. So, when we talk about price for value, we're talking about -- we're going to price in such a way that the farmers are giving to add value and we're getting paid for our technology. And so it's a strategy we've used over the last year, and we'll continue to use this with price and productivity to help offset the inflation and effects that we've had over the last year and you've seen in the first quarter.

#### Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Okay. Tim?

#### Timothy P. Glenn

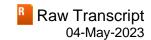
Executive Vice President-Seed Business Unit, Corteva, Inc.

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Hey. Good morning, Vincent. So, North America pricing obviously after the strong start in terms of pricing and I'd say it's turning out consistent with our expectations, clearly driven by our strong value proposition and in terms of

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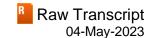
our ability to execute in the field. I think we've got several years of demonstrating that we're going to get paid for value that we deliver. In terms of the mix between corn and soy, I'd say the first quarter soy numbers, there's a little bit of an anomaly in that in the sense that we had a route to market change. And so it's -- I think it's showing up at about 1% on soy in the first quarter, and that's going to be lower than what we would expect over the course of the season. The [indiscernible] market change is driven by the move from direct sales in the South and Mid-South to dealer sales. And so instead of paying a commission on the backend, it's an off invoice discount. So our gross price is different under the two models, but in the end, what our margins it will demonstrate pricing there in terms of how the season is gone, I'd say as competitive as normal, farmers have been very committed to corn and very strong corn orders throughout the season and soybeans are always just a little bit more competitive. But I'd say playing out as we expect and I think representative what we'll see over the course of the season.

Operator: And our next question will come from Joel Jackson with	вмо.
	C
Hey. Good morning, everyone. This is Joseph on for Joel. So just in 36% this quarter, what would be some of the opportunities to move doing in that area?	·
	Α
Dave, why don't you take that question?	
	Δ

Sure. Yeah. So as we cited on prepared remarks in our release, we're raising the guide for the year that really reflects two things. One is the higher EBITDA, the higher earnings. We also just fine tuned, it's not that significant but it's part of the math fine-tuned our CapEx full year forecast. In terms of improvement, we're here there's a lot that's going on in the organization and in both businesses that's really giving us greater confidence in terms of our cash flow for the year.

On the other side of the equation, what we have is with some of the timing difference in terms of the distribution between 1H and 2H, we've obviously going to be carrying a little bit more working capital, including, as you would suspect, will have receivables balances that will be weighted now more significantly than our original forecast towards the second half and towards the end of the year. So it's really the balance of those items. I think as we look into 2024 and 2025, we remain very confident in our ability to continue to increase cash flow as well as cash flow conversion. And by the way, just to tell you a little bit about the conversion numbers, that conversion for 2023, the midpoint, the \$1.3 billion of free cash flow represents about 63% of our operating or earnings. So, if you will, the free cash flow divided by our operating earnings forecast, that's implied with our EBITDA update, and our EPS update, which compared to EBITDA if used EBITDA, again, as the denominator would be more in the neighborhood of about 35%. So it also gives you some relative measures. We're very, very confident, looking forward that we've got the ability to continue to drive towards the kind of numbers that you mentioned in the 40% and even into the 50% range on cash flow conversion as it relates to EBITDA as the denominator.

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



Q

Good morning. With regard to crop protection, it sounds like you're seeing good underlying demand. Would you comment on your current view of channel inventories around the world? I think you made a comment in the prepared remarks that buyer patterns were normalizing here. And just curious on what you think that – that could do to the volume experience as the year progresses. Thank you.

Д

Okay, Kevin, how are you? Robert, why don't you take that question?

A

Yeah. Kevin, when you began to look at our channel inventory. You know, we track our distributor inventory as well as our product to ground. So we have a pretty good handle on what's going on in the channel from our inventory standpoint. And when you look at it across, you know, across the regions, they're full as they should be at this time of year, especially in North America. But overall, for Corteva, we're about normal. The two hotspots are two exceptions. One is in Asia, where we have insecticide inventory in the channel that is elevated. But we do believe we're in a better position there than, you know, the industry is from a standpoint of channel inventory there that it'll work itself out across the second half of the year. And in Latin America, fungicide obviously, is one that that is up, as we talked about, in Q4 and as we got into the drought. So fungicide is something there that that also we believe with normal weather will work itself out across the year also. When you begin to look at the shift that we talk about there and how that impact channel inventory, really, it's just the shift of first half, second half that we're talking about. And that's the normalization of buying that's happening right now that we're seeing in crop protection. And this really has a lot of things to do with the supply chain getting better. Disruptions aren't totally gone, but they're manageable now. And so the supply chains have plenty of availability for the farmers. So with that, they don't need to buy right now. And then, when you began to look at all the other extraneous factors that are that that will impact their decisions from glyphosate pricing dropping and then looking at how that impacts, et cetera. And quite honestly, the retailers are really trying to manage their cash flow. And so they're looking at things as well to make sure that they're empty by the end of the season. And so with all that, you get delayed buying pattern that really is more normal. And so when we say normalized, you begin to look at prior years before 2022 and you begin to see that we're just basically saying that ordering will become more like it has been in the past.

**Operator**: And moving on to David Begleiter with Deutsche. Thank you.

David Begleiter

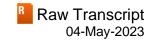
Analyst, Deutsche Bank Securities, Inc.

Thank you. Good morning. Chuck, commodity prices have been dropping a little bit here. At what point is that concern for you and your longer-term earnings guidance? I know this is well above long-term rates, but they have dropped a little bit here. Thank you.

Charles V. Magro

А

Chief Executive Officer & Director, Corteva, Inc.



Yeah. Good morning, David. So, look, if you step back and you think through the last two years in terms of crop pricing, we've seen very strong crop pricing and one was a record rate. So that is where we are coming off of but when you look at 2023, we're still well above mid-cycle and crop pricing is still above historical averages. There is still a very tight stocks to use ratio out there. And then if you look at the growing market, the major growing and exporting markets around the world, you've got Argentina that is under a 60-year drought. It's the worst in 60 years. You've got the Ukraine still under significant conflict and not able to produce corn the way they want to, that the drought in southern Brazil looks like it's turned the corner. So we're going to see, I think, good production out of Brazil. But in our view, it's going to come down to the US in the planning in the United States and it's too early to talk about that crop right now because it's just going in the ground. But we also believe when we look at the stocks-to-use models, that we need two consecutive years at trend yield. And this may -- this year may or may not be. So, look, we're still very optimistic about where we are in the cycle. Now, when you talk about Corteva and the influence of the cycle on Corteva, that's a bit of a different question. In fact, if you look at the way we frame the value creation opportunity for 2025, \$4.4 billion, \$20 billion of revenue in 21% to 23% margins a lot of the value creation levers are well within our control. And, of course, we're operating in the ag market. But when you talk about royalty neutrality, the journey, when you talk about the product mix and really optimizing the percentage of differentiated products that we put into the market, when you talk about the number of new products that are going to go in the market in the next couple of years. All of these things I think are well within our control and they're the major levers of value creation. So I think there's two points to make today. One is we're very comfortable with where we are in the cycle. In fact, we think that 2023 is going to be a very, very good year for agriculture. And then on top of that, when you think through our value creation levers, a lot of that will be within our control, and it's a matter of execution. And as the team's been saying today, we feel very good where we are today. And the first quarter is a bit of a testimony of that just the significant amount of new product sales we put into the market. It was the first time we hit 25% EBITDA margin in the first quarter. So we like the strategic levers we're pulling and we think they're adding value.

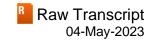
Operator: And our next question will come from Christopher Parkinson with Mizuho.

Great. Thank you so much. So when you look at your the first quarter EBITDA bridge, I mean, it's clear that you're facing a world of costs, which is positive. But could you just give a little bit further insight on how we should be thinking about that by segment just for the balance of the year and the cadence and how that evolves throughout the balance of 2023? Thank you so much.

Go ahead, David.

Maybe I can take that one. So when you look at the first quarter performance – and I'm sorry, there we go.

When you look at the first quarter, of course, the pricing as we talked about was influenced also by EMEA. And just maybe just chat a little bit about that, just to give us some perspective, as we mentioned, Chris, in the call that we had fairly significant currency headwinds in EMEA in quarter one. And in fact, if you exclude euro-based currencies, the headwind was only 1%. So it really gives you a kind of an indication of how significant it was. So



given that fact, that really also influenced our pricing. So in other words, it wasn't just the price for value and against cost, it was also against the currency headwinds that we faced. So that's important. As we've indicated, our pricing remains on track for the full year against our original guide that we made for pricing. And the numbers are significantly consistent whether you look at this, the seed business where we expect high-single digit pricing for the full year or crop protection where we expect low to mid-single digit pricing for the full year for crop. So no change from that. And again, first quarter very much influenced by that EMEA phenomena that I mentioned to you.

**Operator**: And we have a question from Jeff Zekauskas with JPMorgan.

Q

Thanks very much. Sort of a two-part question. Is your mix in corn seeds in North America improving and making an appreciable difference to your corn economics?

And second, in terms of cash flows, that the cash flows year over year were lower by \$600 million and a big piece of that was accounts payable and that accounts payable sequentially went up by \$950 million and normally – sorry, decreased \$950 million. And normally it decreases maybe \$400 million. What's going on with payables, will your payables be higher in 2023 than in 2022. How does that line work, what's going on there?

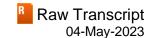
A

Yeah. Do you want me to maybe take the cash first turn and then you can come back and talk about seed North America. So Jeff, good morning. This is Dave. So you're right, the cash flow was a \$3.5 billion use of cash in the first quarter compared to \$2.9 billion in Q1 of 2022. And as you know, that was really related to you would expect significant related to receivables balances with the growth that we had. We also had relatively neutral contribution from inventories in the quarter on a period over period basis. The payables is really timing related. It's a good call out. We expect that to normalize over the course of the year. There's a number of factors that influence that. We can explain a little more of that detail that makes sense offline. But just to know that, number one, it's a good call out. Number two, we do expect that to normalize over the course of 2023. And by the way, the cash forecast that we had for the quarter were basically slightly ahead of our own internal plan.

So the numbers that you're looking at are consistent with what our own expectation was and consistent with what the guide is that we've updated today for cash flow for the year. Tim?

A

Hey, Jeff. On the second or the first question, I guess, on the mix, if we're seeing an improving mix in corn technology, what I'd say is when you look over the course of the season, our technology mix doesn't vary that much on a year to year basis. Farmers get comfortable with certain types of technology. It's critical for their operation. They kind of plan accordingly for that. And in terms of the year to year shift, you might have a point or two shift, but it tends to be very consistent. I think what you are seeing this in terms of first quarter versus first half is we had a little bit different mix in terms of the out of the door sales. And so we probably had a lower representation of the Pioneer in the sales rep model and more dealer, or distributor, which will be primarily Brevant in the retail as well as in the South and Southeast where Pioneer is going through distribution as well. So probably saw more of a mix effect on the quarter in terms of channel versus technology. And again, our



technology, they don't change that much. I would just emphasize we had kind of a miserable end of March and beginning of April. So that's why we ended up with a higher percentage of from a weather standpoint, from a higher percentage of call it dealer distributor business in to farmers through our agent. So but the technology mix doesn't change on a year to year basis so much.

Operator: And our next question will come from Steve Byrne with Bank of America.

Q

Yes. Thank you. I would like to better understand what you mean by the shortened Safrinha season or in perhaps you can break down that 41% decline in seed volume, [indiscernible] (00:43:27) has Safrinha Corn area modestly up year-over-year, so I don't quite understand it. Perhaps it was a pull forward from the first quarter and/or how much of it was due to just insufficient seed supply.

А

Hey, Steve. Good morning. This is Tim. I'll take this. So there were a couple of things happening in terms of seed in Brazil and we knew we were going to be tight on supply. And as you called out there and we've been talking about that, I think for probably the last couple of quarters, we had low inventory challenging production, seasons and so we knew we were very tight in terms of what our supply would be for the entire Safrinha season. And, you know, what happened was the dynamic played out as soybean harvest continued. It extended into some of the smaller states and so – on a gross so which is about half of Safrinha, was planted on a relatively timely basis. But when you get into São Paulo [indiscernible] (00:44:29), it was a much more delayed. And so in the end there were fewer hectares planted. And you're right, [indiscernible] (00:44:37) is showing about 3% increase. We had planned an expected for it to be more like 10%. So that's where we talk about the season being shortened. And in terms of the timing, was fourth quarter a little bit bigger, it was and part of that was because farmers knew we were going to be tight on supply and they physically wanted to have that seed. And so, so there was a pull from our farmer customers to get that seed in their hand. When you look at it on a seasonal basis, so with 3% - let's assume the area increase, take our volume in the fourth quarter and the first quarter, we're actually about flat on volume. So and that includes very strong price increases, as you see So, and that includes very strong price increases as you see now there, so didn't play out exactly as we expected it to, but we are very close to holding share in a market where we knew we retired on supply and we were very strong on value capture. And as we go forward, so I'll touch on the whole question around – around supply just so we can do it, kind of close the door on that. You know we did take a different approach in terms of – of focusing much more on summer production and we're much less dependent upon just in time or suffering US production. So, just like farmers have a summer season and a spring season, we produced over both. We increased the mix of production more towards the summer season. As we sit here today, a significant portion of the seed that we are going to use for the upcoming summer and spring seasons has either been harvested or it's very close to being harvested. So, we're in a materially better position to meet the needs of the market based on the growth trajectory. And you know as we look at next year, we expect that Brazil will continue to increase both soybean area and spring area and that we're going to be in a good position to meet the needs.

**Operator:** And we have a question from Kristen Owen with Oppenheimer.

Q

; Great. Thank you so much for taking the question. I was wondering if you could just talk a little bit about what you are seeing on the ground in terms of the flooding in lowa. Just any impact to planting season or just how we should think about maybe the – the puts and takes positives or negatives that – that may come from that event as you see it throughout the rest of the year. Thank you.

Д

I think that's heading my way again Kristen. Good morning. So, in terms of the state of the season, I describe overall we're off to a decent start with planning progress. And you know we're at on corn we are at about the five year average as of Monday when the USDA last reported. And we're slightly ahead of the five year average on — on — on soybeans. And so again it's despite getting off to a really pretty slow start at the beginning of April as we were working through the end of winter and really moving towards spring conditions. Across the Corn Belt, all indications are that we're going to continue to get the crop in the ground on a timely basis. So we do have some isolated places where we've had some river flooding due to the snowmelt. And you pointed out Northeast Iowa is one of those areas. Another area that we're looking really closely at is the northern plains of the Red River Valley. Tuesday afternoon, I had a conversation with our area leader there to understand where we were sitting and actually tremendous amount of progress has been made up there. And we're very optimistic that that farmers are going to be able to get most or nearly all of this crop in the ground. So the other thing we got to remember is that we have large, large farmer customers and they are highly motivated to get the crop in the ground. So we've got about 30 days of good corn planning window here, call it, the month of May in front of us. And as the season opens in those areas, farmers are going to be able to move fast. And they're very motivated to get that get that corn in the ground. So we'll continue to watch it. But as of right now, I would not put up a red flag on that.

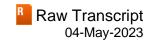
**Operator**: And we have a question from Arun Viswanathan with RBC.

Q

Great. Thanks for taking my question. Good morning. Your results look -- you thought and seen from maybe some of your peers, was that -- would you attribute that to maybe share gains in crop protection and new product rollouts? Or how would you kind of consider your performance versus global ag market trends Have you seen any changes in in ag markets or is it just more internal? Thanks.

А

Yeah. I can have Robert and Tim talk about where they think they stand from a share perspective, but at the highest level, look, we've been on this strategic journey now for a couple of years where we're trying to really drive the portfolio through some choices around which countries we operate in and what our product slates look like and really drive the differentiation of new technology around the world. And so we've made a series of decisions. I think we've been prudent with our SG&A Dave referenced that essentially flat for the last couple of years on an apples-to-apples basis and really trying to focus on our controllables. So and then of course, we do have just a very strong lineup from an R&D pipeline perspective. Some of those new products now are coming into the marketplace, both in seed and in CP. And I think that is allowing us to drive market acceptance of these



products and allow volume growth. So Robert, maybe talk a little bit about what you're seeing and then Tim can do the same.

A

Yeah. Thanks, Chuck. On the CP side, let me start with, we continue to see the market will grow on a year-over-year basis, even in 2023 where we're expecting from the non-glyphosate take glyphosate out, about 6% to 8% or mid-single digits really is really the more better, normal or better number. For growth on total market when you begin to look down at how we performed from a market standpoint, 2022, the organic growth for the industry was in the mid-teens. And we grew, as you saw on the Q4 report, about 20% on organic growth.

So we expect we picked up a few points market share around the globe. Obviously, all the numbers aren't totally in. So we got to see how things settle out. But we do expect that we've gained a little bit over the last year. And as you begin to project that forward into this year and what's happening, the volume is growing from crop protection around the world and for us as well. The shift that I talked about earlier is just timing. And so the demand remains very strong as we see it. And for us, it's really centered around the differentiation and the strategy that we put in place to be differentiated and sustainably advantaged in our portfolio. And that's really being driven by two areas, primarily new product growth, as you saw in first quarter was up, and we expect that we will be up across the year from a new products and Spinosyns. Spinosyns continue to be a franchise that will be over \$1 billion this year and it is continuing to grow. So when you begin to look at how we're different in the market, we're continuing to be able to deliver new technologies to the growers. That's really helped them add value in and yield to their farms. So those are some of the things that's driving us and how we see the numbers a little bit there across the last year and the first quarter.

Д

And Arun on the seed side, obviously, it's too early to call 2023 on a market share standpoint. We felt good about how our order position has had for both corn and soybeans in North America and Europe, as the season has gone on. So we'll kind of wait and see how the seasons develop. But feel pretty decent about where we're sitting right there. In terms of how we performed over the past several seasons, you know, much like Robert said, you know, we carry a lot of momentum in the marketplace right now. And on the seed side, we've been growing holding a growing market share for the last several seasons in many of the largest markets out there. So North America corn and soy last year, we gained about a point each, which is significant. We've had multiple years of share growth in Europe on corn and sunflowers. And up until this past safrinha season, we've been on a very positive share track across Brazil as well. So when we think about unit volume as important, because it is a metric that's key in the marketplace, we also look at the value share out there as well. And I think when you look at the combination of strong unit growth as well as the pricing we've been able to deliver over the past several seasons as well, we're also gaining on that value side as well. So feel very comfortable about where we're at and something that we do watch as a key metric for our business.

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

Hi. Good morning. This is Lucas [indiscernible] on for Josh. Just wanted to clarify the earlier comments on the EBITDA sizing so when you're implying that the second quarter would be sort of \$1.6 billion to \$1.7 billion based

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04-May-2023

on 80% in the first half. And if that's right, then your guide sort of implying \$700 million to \$800 million in the second half. So could you help us bridge there sort of how you get from the \$465 million in the second half last year to the \$700 million to \$800 million this year, please? Thanks.

A

Yeah. This is Dave. I can give you a little bit of additional color on that. So again, it's against the backdrop of the EBITDA guide, as you cited, that we've given for the full year, call it, \$3 billion to \$650 million at the midpoint. When you look at the pattern for this year, we would expect revenues to be slightly different, but roughly in line with last year. So roughly 60% first half, 40% second half. On the other hand, on the – and the EBITDA as I said, if you look at last year, we had about 85%, little over 85% of our EBITDA that was generated last year was generated in the first half. We're going to be some 300 to 400 basis points slightly less than that in terms of 1H 2023 EBITDA as a percent of the total year compared to 2022. So when you do that back into math, what you get is you still have growth obviously in the second quarter, but it's more muted for the reasons that we talked about, the timing of EMEA and the shift-out of LatAm mostly from 1H last year or more significantly 1H last year into a more normalized pattern of 1H, 2H for this year. So that's really the difference. And again that earnings when you look at that distribution, it's not that much different than we've had pre-2022 levels. So, hopefully that helps.

**Operator**: And we have a question from Ben Theurer with Barclays.

#### Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

C

Yeah. Good morning and thank you very much. Congrats on the results. Wanted to follow up just a little bit on the short and medium-term impact as to your guidance and some of the strategic announcements you've made. So how should we think about the portfolio execution on these exits? And how is that going to shape, is that all baked in into the guidance for this year, what are the main impacts and where do you see maybe potential to increase further the -- to get closer call it to the higher end of the range in the long run versus the lower end of the range. What I like kind of the levers we should consider here? Thank you.

A

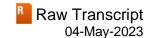
Dave, do you want to take that one?

А

Yeah. I think one of the things we can say. We can say in Chuck references earlier is we're well on path in terms of the product exits the Als, if you will, the active ingredients, exit as well as, you know, some of the geographies that we're exiting. So the majority of that is going to be completed over the course of 2023, and that's baked into our guidance. Now, importantly, when you look at the numbers in terms of the significance of those exits, it really does have a big impact on the on the on the figures. So, for example, when you look at total Corteva for the full year and now I'm talking just specifically about volume. When you look at the full-year on an adjusted basis, what we're going to see is, is positive growth of over 3% for total Corteva. It's really significant when you look at that at the crop protection business on the significance of access. Because when you include both the impact of product access and also the decision to exit Russia, which as you know, we announced in 2022, I mentioned for the first quarter that crop production volume would actually be up. And for the full year, it's going to be up attractively mid-single digits when you adjust for those strategic decisions. So I think a couple of takeaways. I

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Q1 2023 Earnings Call



think number one, relative to your question, we're absolutely on track. It's built into our numbers. You're seeing that, as Chuck said, in terms of the quality of earnings. You're seeing that in terms of the margin lift that we're generating and the guide that we've given you for the full year. And second, the OpEx are fairly significant when you look at the volume numbers. And when you adjust for those exits, the numbers are, as we said, are pretty attractive and continue to contribute to our strong organic growth outlook that we've shared with you today.

**Operator:** Thank you. And that does conclude the question-and-answer session. I'll now turn the conference back over to Kim Booth for any additional or closing remarks.

#### Kim Booth

Vice President-Investor Relations, Corteva, Inc.

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

**Operator:** Well, thank you. That does conclude today's conference. We do thank you for your participation. Have an excellent day.

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