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Corteva, Inc. (CTVA)

Q3 2021 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Corteva Third Quarter Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Jeff Rudolph, Director of Investor Relations. Please go ahead.

Unverified Participant

Good morning and welcome to Corteva's third quarter 2021 earnings conference call. Our prepared remarks today will be led by Chuck Magro, Corteva's newly appointed Chief Executive Officer, followed by an overview of the quarter and year-to-date financials from Dave Anderson, 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 Q&A session. We've prepared presentation slides to supplement our remarks during this call, which are posted on the Investor Relations section of the Corteva website and through a 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 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 factor section of our reports filed with the Securities Exchange Commission. We do not undertake any duty to update any forward-looking statement.

On our Investor Relations website, you can find our earnings press release and related schedules along with our supplemental financial summary slide deck which is intended to supplement our prepared remarks for today's call. These items provide a reconciliation of differences between reported GAAP and non-GAAP financial measures, and 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 Corteva's Chief Executive Officer, Chuck Magro.

Unverified Participant

Thanks, Jeff. And thank you to all those joining us on the call and webcast today. I'm honored to be speaking with you after having spent the last several days getting to know the team. Before I provide some early perspective, let me first say thank you to Jim Collins, who is guiding me through the transition over the next several weeks. I have known Jim for a very long time and it is a privilege to build on the strong foundation he laid for long term growth at Corteva with culture and innovation at its core.

Now, I recognize it's only day four, so Dave will walk you through the quarterly results and the full year outlook, but it's important for me to first share some thoughts on why I believe that this is an unparalleled opportunity to lead at Corteva. Starting first with the strength of the franchise, which I believe is an industry leader in terms of balance and differentiation. In my experience in this industry, I always admired and respected how Corteva works so closely with farmers to consistently provide best in class technology to drive value.

And further, the breadth and depth of Corteva's portfolio is impressive as its scale reaches all parts of the globe in a competitively advantaged way. This is why I believe, when combined with strong execution Corteva can be the industry leader for years to come. Which brings me to my second point, operational performance. This quarter's results attest to what this team has built at Corteva, a commitment to operational excellence and efficiency has kept the company's supply chains open in the midst of ongoing disruptions.

And a culture focused on delivering for customers and keeping each other safe has kept the organization on track, meeting its commitments. This is another quarter of revenue and earnings growth, which are a direct result of the strong foundation this team has built over the past 2.5 years. Over the past few days, I've spent a lot of time listening to and learning from my team, and I can already say this team is fully equipped to deliver on what we all know this company is capable of. From the expertise of our commercial and operations teams to the deep capabilities of our R&D organization, it is abundantly clear to me that through the combination of the company's strong culture and organizational strength, we are well-positioned to capitalize on the opportunities that lie ahead.

So, to summarize, tremendous assets, operational performance and an excellent team are only a few things I'm really excited about and what attracted me to this opportunity. I understand your expectations and I am confident we will deliver. We have the IP, the commitment to operational excellence and the customer relationships necessary to deliver long term solutions to global issues while serving the best interest of our shareholders. We will always continue to deliver innovative and productive solutions for farmers, expand opportunities for our employees and build long term value for our shareholders, all with sustainability as a priority.

And with that, let me now turn it over to Dave to take you through the results and the updates to our guidance.

David John Anderson

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

Thanks, Chuck. And behalf of the Corteva team, I want to say we're all very excited to have Chuck join us at this time. It's a terrific position for the company and we've got tremendous value that we can deliver. And I want to welcome everybody also to the call. Let's start on slide 5, which shows our financial results for the quarter and also year-to-date. Starting on the left side of the chart, you can see it was another solid three months of continued growth and margin improvement. Compared to the prior year we delivered 24% organic growth gains in both seed and crop protection led by Latin America and North America. In the quarter, we saw accelerated demand from customers, particularly in Latin America, which translated into an estimated $100 million in sales in the quarter that was previously forecasted in the fourth quarter. Looking at earnings, we delivered seasonal loss of $51 million of operating EBITDA in the quarter, which is an improvement of greater than $120 million compared to the prior year.

Turning to the year-to-date results, organic sales were up 9% to just over $12 billion. The growth was led by continued demand for new products, driving more than $330 million in growth from new crop protection products. Seed sales improved on increased planted area in US soybeans and also strong demand for corn in Latin

America. EBIDTA of $2.31 billion year-to-date up 25% compared to the same period last year, and year-to-date pricing, coupled with volume gains more than offset cost headwinds, driving nearly 220 basis points of margin improvement compared to prior year. Now this is particularly impressive given the challenges we're seeing in global supply chains and the cost inflation we continue to face, and we believe it's a clear differentiator for Corteva.

Let's go then to slide 6. With more detail on our global sales growth, here you can see the balance and diversity of the global business in the results. In North America, organic sales were up 5% through the first three quarters. Seed sales benefited from increased planted area for both corn and soybeans, as well as the continued penetration of Enlist E3 soybeans. Consistent with last quarter, Enlist E3 represents about 35% of the US soybean market in 2021. Feedback from growers and performance to this point is quite positive. Corn price was up 2% while soybean prices were down 3% as we continue to see competitive pressure in that market. North America Crop Protection delivered year-to-date organic sales of 10%. Demand for new technologies, including Enlist herbicide remained strong herbicide and fungicide growth were both up double-digits. Price increased 3% through the third quarter on price execution in response to rising input costs, including raw materials, freight and logistics. In Europe, Middle East and Africa, we had strong organic sales growth of 7% resulting from price execution and record sunflower seed volumes. This growth was muted by an approximate $80 million to $100 million sales impact from corn supply shortages in 2-21. In crop protection the portfolio of new and differentiated products remain in high demand, including technologies such as [indiscernible] (00:09:08) Fungicide which enabled us to drive price, volume and gain market share in Europe despite the impact of this discontinued products. In Latin America, we realized 27% organic sales growth on strong volumes and price gains, driven by execution on our price for value strategy, coupled with increases to offset rising input costs. In seed volumes grew 16%, driven by market share gains in Brazil Sarina in earlier shipments for the Brazil summer season. In Crop Protection volumes grew 18% on significant demand for new and differentiated technologies such as Isoclast and Jemvelva insecticides.

In Asia Pacific, we delivered 7% organic sales growth compared to prior year, with both volume and pricing gains. Seed volumes were down largely due to COVID-related demand impacts, particularly in Southeast Asia, in India. Crop protection organic growth of 11% was led by continued demand for two new products, including Rinskor herbicide and also Pyraxalt insecticide.

Let's move now to Slide 7 for a detailed review of our operating EBITDA performance through the third quarter. Through the first nine months, operating EBITDA grew more than $460 million to approximately $2.3 billion; this was driven by strong organic growth with combined price and volume benefits of more than $600 million, as we continue to benefit from new and differentiated products against a strong market backdrop. We recognized pricing gains in both segments, in all regions during the period. Global corn price was up 4% year-to-date, demonstrating the value that we bring to customers.

Sales of new crop protection products grew more than $330 million versus the prior year, and price increased 4% for the segment, which helped offset higher raw material and logistics costs. With respect to increased costs, we recognized roughly $350 million of market-driven cost headwinds year-to-date, as well as $70 million of increased compensation costs and investment spend to support growth. This was partially offset by approximately $200 million in productivity initiatives, resulting in a net cost headwind of $220 million through the first three quarters.

Very importantly, disciplined execution while managing through complex supply chain dynamics translated into more than 200 basis points improvement in operating EBITDA margin through the first nine months of the year, again, a clear differentiator.

Let's go down to Slide 8 where I'd like to discuss the current state of the global supply chain, like other companies and obviously various industries, we continue to face supply chain challenges and cost inflation. And to reiterate that theme we discussed at the end of the second quarter, we believe these challenges will continue through 2022. We've seen the costs of some of our key raw materials and core formulas increase more than 20% in the past year driving expected overall cost inflation to low to mid-single digits as a percent of our cost of sales. In addition to longer shipping times, we've also experienced additional downtime from supply constraints, in part due to the more than 60 force majeures declared directly from suppliers or indirectly from other raw material suppliers.

Now, to help offset the impact of inflated input costs, we're utilizing operational levers such as pricing and very focused productivity initiatives. As an example, on October 1, we announced on average mid-single digit price increases in the US when the majority of our crop protection products. This includes externally sourced glyphosate where we expect our pricing will be up approximately $90 million for the full year. Now, just for context, glyphosate sales represent less than 5% of our total annual crop protection sales, but the inflation impact has been significant.

With this backdrop, it's impressive that we're achieving attractive performance measured by on time delivery to customer requests. The agility and flexibility that our teams are demonstrating has enabled us to capitalize on evolving market conditions, including increased demand for both seed and crop protection products.

With that, let's go to slide 9. I'd like to provide the update on our full year 2021 outlook. We're raising our full year revenue guidance. We now expect reported net sales in the range of $15.5 billion to $15.7 billion, up 10% at the midpoint over 2020. We feel confident in this growth based on strong market fundamentals, continued demand for new and differentiated products globally in both crop protection and feed segments. And price execution in all regions, coupled with pricing for higher input costs.

Now, mostly as a result of market driven factors mentioned earlier, we're raising our estimate for full year costs by $100 million for the year predominantly in crop protection. We're now expecting a total increase of $475 million versus prior year. In addition to these headwinds, we also expect increased SG&A and R&D costs of about $50 million, which includes spend for increased compensation as well as investment spend to support growth. Importantly, we're reaffirming and affirming the full year expectation to deliver operating EBITDA in the range of $2.5 billion to $2.6 billion for the year an improvement of 22% over 2020 at the midpoint. This translates to approximately 150 basis points of margin expansion for the full year. And lastly, we're now forecasting a base tax rate in the range of 18% to 20% coupled with a lower average share price count due to our share repurchase activity. We have increased our operating EPS guidance to a range $2.05 per share to $2.15 per share for the year.

Let's now – let's go to slide 10 and focus on 2022. As you can see on slide 10, we've given you our annual planning framework and you recall that we shared this with you last quarter. It's intended as a reminder of the key assumptions as we frame out the 2022 plan, including organic revenue growth, see pricing versus commodity costs, strong penetration of new products, royalty cost improvement and continued cost inflation, partially offset by productivity initiatives. Importantly, this is all with the backdrop of continued strong market outlook and solid grower economics, which will drive customer demand in 2022.

Turning to slide 11, aligning with our midterm EBITDA target range for 2022, on the left of slide 11, we've shown you at a high level the bridge from our 2021 operating EBITDA guide to the EBITDA range implied by our midterm targets. Now let's go to the right side and cover a few of these key points. Market fundamentals remain positive, and our early views are that US corn and soy acres will be approximately $180 million in total, with a slight shift to soy based on relative economics at this time. Outside of the US, market growth looks strong in markets like Brazil, where planted areas expected to increase 4% to 5%. In terms of organic growth, we expect that the global seed portfolio will continue to deliver on our price for value strategy, where we expect 2022 pricing to be in excess of estimated seed cost headwinds from higher commodity prices. Crop protection new and differentiated products, including Arylex and Enlist herbicides and Isoclast insecticides will be a primary driver in delivering above market in that segment.

Turning to our early assumptions on costs, we've increased our estimate of seed commodity price impacts and expect to see seed cost increases in the range of $250 million to $300 million, largely driven by North America and Latin America. As I mentioned earlier, we expect seed pricing to outpace these costs in 2022. In crop protection market driven inflation will continue through 2022 and we expect cost headwinds of at least $150 million. This includes the impact of the sell through of inventory and continued cost inflation as a result of the supply chain conditions we've already discussed. It's too early to comment on when we think costs will level off. However, we will be using operational levers such as pricing and productivity initiatives to mitigate costs headwinds. This provides additional transparency into our preliminary planning for 2022 and how that bridges to our mid-term target EBITDA range. Put simply, price and volume will be critical to earnings and margin growth against the backdrop of strong customer demand and also continued costs and supply chain challenges. We will be providing more specifics during our fourth quarter earnings call in early February in communicating the full 2022 guidance at that time. And with that, I'll now turn the call back over to Jeff.

Jeffrey Rudolph

Investor Relations Leader, Corteva, Inc.

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

Operator, please provide the Q&A instructions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We ask that you please limit yourself to one question. [Operator Instructions] We'll take our first question from Vincent Andrews with Morgan Stanley.

Q

Thank you and good morning, everyone and nice to chat with you again, Chuck. I'm just curious, Chuck, you know, you have a very unique vantage point on this coming from coming from Nutrien and you know obviously being one of the largest ag retailers and you know you competed with Corteva on the seed side of the equation. You know, you had Loveland and you competed with everybody on your proprietary products over there. So, you know, you highlighted everything that you thought was -- was the strengths of the company. But what do you come into this with from the outside as it is prior competitor thinking that, you know, there are some things that you need to firm up or some things that could be done a bit better, a bit differently or were some blind spots are that you know you have that unique vantage point on that you come into the organization and really hit the ground running with?

A

Yeah, thanks for the question, Vincent, and it's good to talk to you again. So first of all, what I'd say is I'm really excited to be joining such a great company and an awesome management team. You're right. So -- so I know Corteva. I know Corteva because they were a top tier supplier to the Nutrien. And what I'd say to you, though, is in the last couple of days, I've spent time with the board of directors, a lot of time with my team and I'm with the board of directors a lot of time with my team and I've seen some of the operations already in just a short period of time and certainly everything that I've seen, it's exceeding my expectations. So my early impressions are extremely positive. I've had a good look at some of the elements of our technology pipeline. Obviously, I'm able to see it from a unique vantage point now. So I had a peek under the hood and I will say that there is a growth engine here, a very impressive growth engine. The manufacturing footprint. When I look at it, probably the last two quarters have been the hardest in our industry in many, many years. And our supply chain is holding up with quite a bit of resiliency and that's because of the diversity that I've certainly seen. There'll be focus areas, of course, that I will start to talk to the team about. But it is only day four for me. So I just want to say that I'm excited to be here. And some of the areas that I'm going to work with the team on just to give you a sort of a flavor, of course our customers are – we're going to put them first. This company has already done that, but we have a unique set of advantages and core competencies with our technology in our supply chain and everything we do, we're to put our customers first. Second is sustainability, climate change, reduction of bite of acreage, things that really drive yields and improve performance for farmers. These are some are things that I think Corteva is uniquely positioned to is to really drive the sustainability agenda for agricultural farming around the world. And then finally, we have some commitments out there. We're going to deliver on those commitments. So the execution of the strategic plan will become a very top priority. And if you've heard me talk before, I'm a very big believer in controlling what we can control and that we really want to be known as the best and that we really want to be known as the best operator in the industry, because I think that that really complements our technology platform. So hopefully that gives you a bit of color of some of the initial impressions and some of the things that the Corteva team was already talking about, but will be of interest to me as well as I integrate myself with this wonderful team.

Operator: We'll go to our next question from Joel Jackson with BMO Capital Markets.

Q

Hey, Chuck. Chuck, when we think the Chinese potash contracts is going to sell out, no, no, I'm just kidding. But you're – I'm just kidding, I'm just kidding. But seriously you've moved from one part of the industry to another part of the industry and you put out this slide deck on day three on the job fair enough. And I want to know these are targets that Corteva had for some time to 2022, you call them initial planning framework so in every planning framework whatever want call them. And Chuck, you're probably going to be judged on whether you hit these numbers next year and so I have to believe you must have had a lot of comfort level that you can hit at least the midpoint of this guidance range with maybe some cushion above it to own these numbers. Can you specifically, if possible, talk about that and you're confident that you can hit those numbers.

A

Hey Joel. Nice to hear your voice again. Look, so the management, I have confidence in the management team, I'll tell you that right now. The team did reaffirm the outlook. I was certainly involved in that and I will tell you that there is a lot of focus across the company throughout the world and those on the outlook numbers. And it is only day four as I'll just remind you, I will plan to dig in on the fundamental assumptions from the ground up. Obviously, I haven't had time to do that, but I will say a But I will say a couple things. There is a lot of potential in this company. There are a lot of catalysts and levers that are within the management teams control and that they are highly focused on which will drive long-term value creation for shareholders. The other thing is, look, we believe that the agricultural backdrop is still going to be quite positive as we enter 2022. We've got good planted acreage we expect in corn and soybeans next year. We're going to see increased acreage in Brazil. I think that when we look at farmer economics, there's still very constructive your potash question, I'm going to keep to the side. But overall we think that the backdrop for the Ag markets are quite positive and then if you look at what Corteva can do within it and control in terms of price, new products, extension of its channel strategy, these are all things that the management team is highly focused on and when you add it all up, that that's why we felt it was important to at least put the outlook numbers out there. And just to reiterate, I will look into it and a lot more detail, but I have confidence in this management team.

Operator: Our next question from [indiscernible] (00:26:48) with Citi?

Q

Hi. This is is Patrick Cunningham on for PJ. Good morning, everyone.

A

Hi.

Q

You mentioned growth from biologicals that Chuck you briefly touched on that growth engine. You mentioned 17 new launches in 2021 and 2022. So how is this business for you? And where do you think it could go in say five years?

A

Yeah. Hi, Patrick. So look I'm going to have Raj on talk to that because he'll give you the details. From my vantage point obviously, we have some very unique technology in this area. It is a market that is growing. It's becoming more and more important when you think about it through a sustainability lens. It's quite an interesting market, but it requires unique science and technology to really deliver for customers and I think Corteva is going to be a real winner in this area. But maybe Rajan, you can talk about the specifics.

Q

Sure, Jeff and thank you for the question, Patrick. Let me think about the opportunities in the biologics business. The first message I want to leave with you is we see this as an integrated place with the rest of our crop protection business. So, I think that's the strength of our crop protection franchise, coupled with where we are headed with biologics is the reason for optimism. A strategy I would say -- I will explain three prongs to it. The first part is in-licensing very unique technology, and our team has worked to get more than 10 of these signed up in the last 12 months where a lot of our optimism is coming from and these are global companies, companies from Israel, France, Brazil, Spain to name a few. So, very strong in-licensing. The second thing we're working on is we've got a very strong commercial organization, which I know you're familiar with. We are working to build capabilities within our commercial organization, supply chain, formulation and packaging. And last but not the least, R&D to continue to supplement the in-licensing technologies that we get. And with Jeff onboard now, we will continue to explore opportunities to have bolt-on acquisitions with the support from the board to see how we can further accelerate. So, really very exciting space for us. We do have a very strong franchise in the natural products that you are familiar with, the spinoffs and franchises already more than $800 million. So, we are familiar with this space and really looking forward to seeing how further launches will help us continue to accelerate the growth.

Operator: We'll go to our next question from Kevin McCarthy with Vertical Research Partners.

Q

Yes. Good morning and congratulations to you, Chuck. A couple of questions, first, on the financial side. You increased your free cash flow guidance by $300 million on the low end to $550 million. Can you talk through the drivers of that presumably, working capital played a role? And I'd be interested to know, how much you view as structural versus transitory. And then secondly, on the fundamental side, one of your competitors has been quite vocal about short stature corn. I'd be interested to hear your thoughts on that subject and whether that might play a role for Corteva in the future?

A

Hi, Kevin. Yes, Dave can take the question on Cash and Rajan then will follow-up with short stature corn. Go ahead, Dave.

A

Good. Yeah. So, Kevin, thanks very much. Good morning. So on the cash flow [indiscernible] call, you may have referenced the previous cash from operations slide that we had or guide, rather that we had of 1.2 to 1.6. We're now at 1.7, 1.9. So it reflects a couple of things. I think number one, as you know, we have focused a lot on basic operational disciplines around cash and particularly on working capital. So there's a portion of this back to your structure that's really related to that in both receivables and also in our payables area. Those are two areas we've really been working on and deploying talent in the right disciplines and systems to support that. So those are important contributors with also increased the amount of pre-paid assumptions, just in terms of the liquidity that our customers have and just what we're seeing already in terms of cash coming in, related to that, so you could say that it's more, call it temporary as opposed to structural. We've also got some improvement in terms of net income with the lower tax rate that we've got, that's part of, as you know, our EPS guide part of as you know our EPS guide increase also reflects a little bit more on the EPS front as you know it reflects some a little bit lower share count compared to what we had in there previously, given the strength of our share buyback program. So, that's really it in a nutshell. And so, a distribution to your point in terms of structural and more, more temporary, but the structural part is very, very important in terms of what we're going to be able to deliver. We feel confident in that updated guide that's obviously very supportive of our shareholder value objectives, and then, the second part of that.

A

Sure. I'll take that. Kevin, good morning. This is Raju. Kevin, thank you for your question on short-statured corn. When you think about the whole breeding engine that Corteva has. As you know, Corteva has the best germplasm in the world. The whole pool of germplasm that we have is something that we continue to build on. Innovation and the expenditure that we have on breeding is the strongest investment that we make in our seed business. With multiple tools that we have in the breeding area, short-statured corn is definitely one of the areas that we are focused on, but not limited to. We have a very strong history of proving the yield improvements with its 1.5% to 2% year-over-year of not only getting the yield improvements, but also being extracting value from that. So, looking forward to sharing some more detail with you in some future innovation days, but short-statured corn is on the list of things that we continue to innovate in, and we are looking forward to sharing the progress.

Operator: Go to our next question from David Begleiter with Deutsche Bank.

Q

Good morning. And Chuck, congrats as well on a new role. Just two quick questions. First, Chuck, what's your view on the soybean pricing pressure you're seeing and the company's strategy to deal with that pressure, and maybe for you Dave, just on the crop protection pricing, how sustainable are these prices if and when it was do moderate or roll over? Thank you very much.

A

Yeah. Thanks, David. Look so I've always been impressed with as a customer with Corteva's seed technology. We are seeing very solid demand in corn and soybeans, really strong demand in line with our expectations for the endless line up. And Tim can take the specifics around the pricing, so go ahead, Tim.

A

Yeah. Thanks David, good questions. So on the soybean market, we've been talking about this for a number of years. The markets have been competitive and they remain very competitive. But I think when you look at where we're at we've got we've had very good momentum and I'll speak on a global standpoint from a seed standpoint we've been able to capture about three percent year to date globally on seeds and in some segments, even more like corn where we were about 4% global a year-to-date. We have launched our pricing in most of the northern hemisphere including soybeans and consistent with the past we're taking a leadership position in terms of capturing value for our strong product performance. And as always, it's a strong – it's a very competitive marketplace. No doubt about it. And we will – we were going to – so we're going to continue to execute against our strong value proposition. We have a strong disciplined organization in terms of managing our pricing process and the feedback on our products. We're in the middle of harvest still, but feedback on product performance has been very good from a genetic standpoint, and the demand for our E3 platform is extremely strong. So we're feeling good about where we sit. And as always, we'll deal with the competition. When you think about CP pricing and where we're at there, we've been working hard to build a strong execution capability When you think about CP pricing and where we're at there, we've been working hard to build a strong execution capability on pricing there as well. And throughout the year, we've been very proactive to ensure that we're capturing value for our technology and also helping to mitigate the inflationary pressures that are out there. And I would say that we've been I think on the leading edge from an industry standpoint, probably first mover as soon as the first quarter of this year in terms of repricing to try to manage to those escalating prices. For commodity products like glyphosate is very dynamic and we're going to continue to price that on an ongoing basis and really focus on ensuring that we offset all the inflationary cost pressures that we're seeing there. Excluding glyphosate, we've been able to capture about 3% year-to-date across our crop protection portfolio in some categories on our most differentiated products like this Spinosyns we're up about 8% year to date, which is really outstanding. And we're going to be proactive. We're going to be strategic as we wrap up 2021. And then as we set the stage for 2022, we've already implemented pricing for most of the northern hemisphere in 2022. And again, our expectation, as Dave said earlier, that we've implemented roughly mid-single digit pricing across most of our portfolio in North America and we're going to continue to focus on that, continue to remain very disciplined. And obviously, as we work through and deal with more pressures, we're going to continue to offset those as they come forward.

Operator: We'll take our next question from Chris Parkinson with Mizuho.

Q

Great. Thank you very much and Chuck good to have you back. As we head into 2022 you just sit down a little bit on this, but can you just further comment on regional CPC pricing the potential for incremental contributions for new The potential for incremental contributions for new product volume after a strong 2021 performance thus far. And then also just Spinosyns momentum. So just any regional color would be appreciated on these factors. Thank you so much.

A

Yeah, I'll jump in there and talk about that, and obviously, our markets are very local, so when we talk about CP pricing, I'll talk about it in aggregate basis and we reported in an aggregate basis. But we are pricing locally, it's based off individual product formulations and what their bid is in the marketplace and our teams are focused on ensuring that we are as locally competitive, understanding that we've got these global headwinds that we're constantly dealing with. So, we are going to be dynamic in most of the world like state isn't such a driver of price. So, it is our differentiated products that our teams are focused on and when we talk about that 3% year-to-date price increase and when we talk about the mid-single digit price increase that we've already implemented in the northern hemisphere for next year, that is across our new and differentiated products as well. So, it's something that we're going to continue to focus on. We will execute that locally knowing that we've got these global headwinds that we're dealing with and in terms of the contribution from new products going forward, it's been a huge part of what's helped us continue to perform above market on the crop protection side and in most parts of the world and we'll be again in 2022. So, we've got a robust pipeline. We've got great new products like [indiscernible] 00:39:01 and Arylex and Zorvec which are continuing to accelerate their growth pattern. We continue to get new registrations literally every month we're getting new registrations and so new products will be very important part of our 2022 plan.

Q

Your next question from Jeff Zekauskas with JPMorgan.

Q

Hi, good morning, it's [indiscernible] for Jeff, how are you?

A

Good, thank you.

Q

I was wondering if you can speak about the [indiscernible] been launched in Brazil like how a ramp up of that might look like that it's probably very small for the initial growing season, but I was wondering if you look two or three years out, how many acres do you think you might achieve? And secondly, a point where I can also like one more time asking a cost price issue for 2022 so in general, like the outlook that you have for 2022 to me doesn't look that strenuous like if you can have with 3% or 4% or 5% price increases on sales of $15.5 billion like that should offset more or all of your costs and so how the EBITDA growth in 2022 shouldn't be that difficult, despite all of the cost headwinds. What do you see is different in that? See I feel much more optimistic than I hear in your voice. Thanks.

A

So two parts to that, do you want to go first Chuck?

A

Yeah. I'll jump to that real quickly and can cast the question. So obviously, we were very excited in August when we were able to announce that we received authorization from the European Union that enabled grain from E3 to be exported for food and feed you. So as a result we have a limited launch of [indiscernible] E3 right now in Brazil.

Farmers are able to plan product for the 2021-2022 season. So it's an important step forward. What I would reinforce though is that it's really not a meaningful financial impact as we look at 2021 or 2022 as we're working on ramping up production, you know, building out our lineup and ultimately we've got to go out there and gain customer support and drive adoption of the technology. So over time, you know, no doubt this technology is going to drive incremental growth for us. It's going to greatly enhance our competitive position in the Latin American soybean market, which is -- which is important for us, and we're excited to bring new choice to the marketplace and the marketplace is excited to have a new choice in terms of technology as well. So – and in over time, we're also going to introduce this in other markets such as Argentina, Paraguay and Uruguay. So it is something very important. We have not sized what we see the adoption rate as at this point in time, but understand it's a limited launch and it really is about establishing that technology and gaining support from our customers.

A

Yeah. Zeka, good morning. This is Dave. I'll take the second part of that related to 2022. As you said and Chuck really, I think articulated it well, you know, it's a really constructive set up when you look at 2022 with the backdrop of our markets and the strength of what we're bringing, you know, continue to bring to the market. And you know, as you said, you know, on price, you know, we continue to -- to execute against our strategy for pricing. But Rajan and Tim have spoken about that and spoken to some of the specifics. Again, specifically for 2022 related to seed, we expect global pricing to be accretive to earnings after the impact of -- of higher cost of goods sold. And by the way, again, just to emphasize, we've increased that seed cost of goods sold in the range of $250 million to $300 million now. So that's very important. And on crop, you know, we expect to continue the momentum we've seen in 2021, but very important, those two really important things here. Number one is the market driven inflation and logistics costs. Again, I'm going to just underscore that that we anticipate to be at least $150 million and we've seen this progression over the course of 2021, obviously, and we expect supply chain challenges to continue just to underscore that through 2022. So these are some of what we see as sort of the balance against that constructive backdrop and the strength of what we're bringing to the marketplace and our ability to continue to drive, if you will, value pricing in the marketplace. So we're going to get into those details. As I've said, when we release our fourth quarter earnings, 2021 will provide more specific guide, but it's really call it down the middle there in terms of the set of positives and constructive set up what we're bringing to the table. And then this, if you will, inflation impacts that we're seeing in the very dynamic nature of that. So we appreciate your question and look forward to that update when we can provide more details.

Operator: We'll take our next question from Steve Byrne with Bank of America.

Q

Thank you. I've got a follow up for you, Tim, and that is about your seed orders for 2022 in the US. Where would you position them that right now? Are you close to having half of those orders in given where we are in the harvest? And any trends that you can comment on whether there is a mix shift in germplasm or trades or perhaps even a mix shift in acreage between corn and soybeans?

Yeah, thanks, Steve, and you know, where we're sitting right now is I would characterize this as kind of the middle part of our booking season in North America. You know, we go out and see customers call it September 1st, more or less is when we're when we begin to move in the marketplace. And that booking period really extends through the end of the calendar year. And then so, you know, we will expect, you know, by that time to have, you know, the majority nearly all of our order position in place by the end of the year. So we're sort of in that middle position right now. And I'd say that orders are tracking well with where we would expect to be right now for both corn and soybeans in terms of technology shifts. If anything, I would say that LSC 3 demand on the pioneer side is is running a little bit stronger than maybe what we had originally planned as we came into the year in terms of the acre mix between corn and soy, I think it's very preliminary and way too early to make a call based off of our orders. Right now, customers are going to go through the next several months and really have to figure out on an individual basis what what their crop mix will be. And you know, Dave made the comments about, you know, where we see the market going in the next year, roughly $180 million planted acres between corn and soy in the US that that's there. And right now, and when you look at the corn soy ratio, it's about two to seven, which isn't so which is actually pretty neutral, I'd say, on a year-over-year basis, but that it feels like the economics are saying that, that we could trend a little bit more towards soybeans in terms of that $180 million mix than last year. Can't call it off the order position. Yeah, I'd say the corn technology mix is consistent with what we would expect it to be. Farmers have been planting high technology seeds and continue to want to do that. And really, I'd say where we sit today really sports, you know, what Chuck and Dave have already talked about in terms of our setup for 2022 in terms of, you know, good healthy markets and also very strong demand for our technologies.

Operator: We'll take our next question from John Roberts with UBS.

Q

Thank you. Two questions on pricing. And welcome back Chuck. On crop protection pricing, it ranges from flat in Asia Pacific to 5% in Latin America. Does that basically track where the new products are having the most impact? Or is there something else behind the range in pricing, like the bundling – bundling rebates received?

A

Yeah, John, I'll take – I'll take that. In terms of the – the – that that element, I would say Latin America clearly has health – has been benefiting from good, strong, healthy economy as well as that impact from new product technology. I don't think you can – you can lay it only on that because actually we've got – we've had some – some – some good technology adoption in Asia Pacific as well. So good, strong product introductions. It really comes down to where – where we sit in those local markets. And again, we are dealing in very competitive markets and actually on a year day basis, APAC is not flat. They're more like 2% year to date. So we do have some – some growth there as well. So I would say it's the markets themselves, it's the timing of when we would have executed the sale. And of course, that is very dynamic. Latin America is certainly more weighted towards the second half of the year and we would have taken more pricing actions, I would say, is to help mitigate some of the inflationary pressures that we've seen as the year develop and been able to realize that from a LATAM standpoint. But you know, I wouldn't – I wouldn't say it's only because of the product mix or – or – or anything like that. I think it could be timing and then that local competitive situation that you're facing in those markets.

Operator: And we will go to our next question from Michael Piken with Cleveland Research.

Q

Yeah, hi, I was just wondering if you could give us an update, you know, in terms of you're in this platform in terms of what percentage of your and sales next year are going to come from your own germplasm and you know how broader, I guess, you know, your scope is going to be geographically specifically wondering about the southern United States and you know, that market for unless next year as well. Thanks.

A

Thank you, Michael. I'll take, this is Rajan Gajaria. So first and foremost, just taking a step back, the overall adoption of the Enlist system really continues to meet our expectations. The demand at the grower level across the US is really very strong. And as we think about our own germplasm, we've got a very strong pipeline of new products coming through. Most of them are going to start hitting in 2023, 2024 but we are going to start making an impact in 2022. So the germplasm is going to continue to grow within the Corteva germplasm as the trade gets integrates into our own portfolio.

That said, I think the overall adoption is going to be higher than what we had said in 2021. As you know, we had expected about 30% and we grew to more than 35% and looking at the 2022 setup, we continue to see that continuing to grow. Some of the challenges that we have had in the south with dicamba continues to be a challenge. But when we look at the Enlist herbicide performance, I think we continue to get encouraged there. The South is lagging in terms of adoption but as we continue to work on the different varieties, how they're available and we talk about the dicamba challenges, I'm very optimistic that we'll be able to make some progress there too. The bigger issue in the south, as I'm sure you're familiar, Michael, is more about the entrenched dicamba capabilities that are there. And as we work through some of those things, I think we will get to where we need to related to their list adoption.

Operator: We'll go to our next question from Arun Viswanathan with RBC Capital Markets. And, Arun, your line is open. Please check your mute button. Due to no response, we'll take our next question from Frank Mitsch with Fremium Research.

Q

Yes. Good morning. Congratulations, Chuck. Good to speak with you again. Looking forward to seeing you on Monday. You mentioned that your second priority was on the sustainability front and during the quarter, Corteva announced that there – they did a Carbon Capture Initiative joint venture with Indigo. And I was wondering if – if perhaps someone on the team can talk about what the – what the financial ramifications of this are? How does it fit into your current product offerings and any sort of initial feedback that you've received from this?

A

Hi, Frank, this is Rajan. I'll take that. Early days related to the whole of value capture from a carbon perspective, but we are really excited about the relationship that we have gotten with Indigo. We had a pilot program planned for getting to 100,000 acres this year, and we are going to exceed that. But as you think about sustainability and as we think about where the whole value proposition for farmers is going to go, it's too early to say this is what the price of carbon is going to be. And that really is going to be one of the biggest assumptions that there is. But the technology that Corteva brings from a digital standpoint will help to make sure that we are tracking the behaviors that the farmers are going to change. The partnership with Indigo brings capabilities that they have in terms of measuring the actual impact and get all this validated with third-party bodies in there. So we are really excited about the possibilities and creating more opportunities for our farmer customers to get the additional revenue. Too early to comment on what the financial impact of that is given the infancy of where we are right now.

Operator: And our last question will come from Alexei with KeyBanc Capital Markets.

Q

Hi, this is Paul Solander on for Alexi. Just one quick one, what is your current outlook for seed growth in 2022? Thanks.

A

Hi, this is Rajan. I think taking a step back to talk about our seed neutrality journey will continue to be on track for that. The seed royalty reduction in 2022 will be in the similar ballpark to what we have done in 2021. Give or take around $50 million. But the important thing is that all the elements in play for us to continue to work with the royalty reduction are there of which the Enlist adoption that we have been talking about is a big part of it. So that's how we look our royalties for 2022.

Operator: So now we will conclude today's question and answer session, Mr. Rudolph, at this time, I'll turn the call back to you for any additional or closing remarks.

A

Great, thank you. We appreciate everyone joining the call today, and again, thank you for your interest in Corteva, have a have a great and safe day. Thank you.

Operator: This concludes today's call. Thank you for your participation, you may now disconnect.