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Corteva, Inc. (CTVA)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Corteva Third Quarter 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, ma'am.

Kim Booth

Vice President-Investor Relations, Corteva, Inc.

Good morning and welcome to Corteva's Third 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 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 statements.

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

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

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Thanks, Kim. Good morning, everyone, and thanks for joining us today. Just over a year ago, we unveiled the strategic framework to enhance Corteva's competitive position while achieving margin expansion and long-term value creation. What we didn't know at the time was how important the efficient execution of that plan would be in delivering continued earnings and margin growth in 2023, a year with no shortage of complicating geopolitical, macroeconomic, and Ag specific factors. We're making good progress towards our 2025 earnings and margin targets despite these challenges.

Through the first nine months of the year, we generated over 120 basis points of margin expansion. What sets us apart is the strength and balance of our global team Crop Protection portfolio and our continued focus on controlling our controllables. Our Seed business is delivering exceptional performance in 2023 and is set up for continued growth with our pipeline of technology and new hybrids.

For 2024, we will roll out over 200 new hybrids and varieties around the world after more than 300 in 2022 and 2023 combined. This is helping farmers around the world increase yield and production, which is reflected in our price for value strategy. Thanks to the continued success of our Enlist platform, where last quarter we announced having become the number one selling soybean technology in the US, we're expecting to deliver royalty reduction benefits in 2023 of approximately $200 million with another $100 million expected in 2024. This is about a year ahead of our plan to achieve royalty neutrality. And just last week, we announced our next series of Enlist E3 soybeans in North America that builds off our industry leading [ph] E-Series (3:38) performance. More to come on this soon.

In corn, we are delighted to say that we now have a decade view of corn trait technology which represents a robust market opportunity, including out-licensing, all of which will translate to significant value creation. We're also running ahead in cost and productivity across both of our businesses.

Last September, we estimated cumulative run rate savings of $400 million. We're now set to deliver over $300 million in 2023 alone. And today, we're announcing the next steps in the plan to optimize our global crop production network. The plan includes the exit of production activities at our site in Pittsburg, California, as well as ceasing production at other select locations. These actions will strengthen our competitive position in the market by improving our cost base and increasing supply agility. Dave will describe the plan in greater detail, but I'll highlight that we're estimating annual run rate savings of approximately $100 million by 2025 that should significantly enhance our competitiveness and our customer service globally.

Overall, the Ag markets remain constructive, but mixed. Global Ag fundamentals remain positive, with farmer income still above historical levels. Destocking in crop protection appears to be largely behind us in North America with an uptick in orders from the channel. But we expect destocking to continue through the current season in Latin America and the upcoming season in Europe. Underlying farmer demand in terms of applications is on track with historical trends. However, just-in-time order patterns, which are most pronounced in Brazil will likely persist into 2024.

So what does all this mean for the remainder of the year? Our current expectation is that our 2023 full year results will still deliver operating EBITDA growth and over 100 basis points of margin expansion. We're responding to the local pressures we're experiencing in Brazil and we remain committed to long-term value creation, including returning cash to shareholders, as evidenced by the $750 million in share repurchases this year.

Turning to the market outlook, we're seeing solid global demand for agricultural production. Global demand for biofuels in 2023 is at a record level and we expect continued growth in 2024. Global production of many key crops is estimated to be up versus the 2022/2023 crop year, including corn and soybeans. Although current USDA estimates for the most recent crop year show it would be the fourth consecutive year of below trend corn yields in the US, we're starting to see a rebound of US [ph] ending (6:34) corn stocks due to an increase in planted area. This comes after several years of tight stock levels driven by weather challenges. However, total corn and soybean stocks, excluding China, are not back to pre-pandemic levels and are dependent on critical southern hemisphere production which is even more apparent in soybeans where Brazil is a critical exporter.

Meanwhile, corn production in Europe remains markedly below pre-conflict levels, particularly in the Black Sea region, where Ukraine production is down 30%. Brazil is really a tale of two crops. Soybean area is expected to be up in the 2023/2024 crop year based on relative production economics between soybean and corn. Extreme weather, varying by region and driven by the El Nino transition, are adding an additional level of complexity the current USDA and [ph] ConAg (7:33) crop area estimates. This is all factoring into our latest operating assumptions that both Summer and Safrinha area will be down. Although the combination of factors at play in Brazil this season are quite complex, this is part of the global agricultural markets' ongoing balance of supply and demand which is expected to also result in a modest shift from corn to soybeans in the US in 2024.

To wrap up, we believe we have one of the most competitively advantaged Ag technology portfolios in the industry. We believe our performance over the past three years speaks for itself. Since the beginning of 2021, our revenues are expected to be up about $3 billion, while delivering an increase of over $1.2 billion of EBITDA. But what perhaps is even more impressive is EBITDA margin improvement approaching 500 basis points. No other company in our space has come even close to that level of performance, and there's even more to come.

And now let me turn the call over to Dave.

David John Anderson

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

Thanks, Chuck, and welcome everyone to the call. Let's start on slide number six, which provides the financial results for the quarter and the year-to-date. You can see from the numbers that we continue to deliver operating EBITDA growth and margin expansion despite the mixed market conditions that Chuck outlined. Briefly touching on the quarter, sales and earnings were largely in line with our expectations. Organic sales were down 13% compared to prior year, with Seed pricing gains offset by volume declines in both Seed and Crop Protection. Lower seed volumes were driven by lower expected planted area and delayed farmer purchases in Brazil, and an earlier operational finish to the season in North America.

Crop Protection volumes were impacted by approximately $95 million in product exits. In addition, we saw inventory destocking in both North America and Latin America and delayed farmer purchases, particularly in Brazil.

Turning to year-to-date, sales were down 1% versus prior year, with broad-based pricing gains offset by lower volume. Global pricing was up 9%, with gains in all regions and increases in both Seed and Crop Protection. Seed volume was down 5% versus prior year, largely driven by the decision to exit Russia. Crop Protection volume was down 16%, which includes a 5% impact from product exits. Put it in perspective, total exits year-to-date represent a $530 million impact to volume.

Now despite the reduction in the top line growth, strong operational performance translated into operating EBITDA of nearly $3 billion year-to-date, an increase of 5% over 2022. Pricing, favorable product mix and productivity, more than offset higher costs and volume and currency headwinds driving more than 120 basis points of margin expansion for year-to-date.

So let's now go to slide 7. You can see the gains in the Seed business were offset by Crop Protection market headwinds year-to-date where total company organic sales declined 1% compared to prior year, which again includes a 4% headwind to volume from the exits. Seed's net sales were up 7% through the third quarter to more than $7.8 billion. Organic sales were up 9% on strong price execution as we continue to price for value and offset higher input costs.

Global seed price was up 14% year-to-date with gains in every region led by North America and EMEA. Seed's volumes were down 5% versus prior year. Gains in North America, driven by increased corn acres were offset by declines in EMEA, driven by the exit from Russia as well as lower corn planted area in Latin America due to expected corn planted area and delayed plantings. The exit from Russia represented a 3% headwind for the Seed segment.

Crop Protection net sales were down 10% versus prior year to approximately $5.7 billion. Organic sales were down 12%, with pricing gains more than offset by lower volume. Global Crop Protection pricing was up 4% year-to-date as the high-single-digit pricing gains from the first half of the year moderate due to increased competitive pressures. Crop Protection volumes were down 16% through the third quarter, impacted by channel de-stocking, a shift in timing of seasonal demand delaying farmer purchases in Latin America as well as more than $330 million headwind or 5% impact from exits.

Currency headwind for the total company was 2% largely driven by European currencies. And finally, the Biologicals acquisitions added more than $280 million of revenue which is reflected in portfolio and other.

With that, let's go to slide 8 for a summary of the year-to-date operating EBITDA performance. Through the first three quarters, operating EBITDA increased approximately $140 million to just under $3 billion. Year-to-date, we delivered more than $1 billion in pricing and product mix improvement. Pricing gains coupled with improvement in net royalties, productivity and cost actions more than offset declines in volume and higher cost and currency headwinds. The roughly $460 million of net cost headwind was related to seed commodity cost and unfavorable yield impact as well as crop protection inflation by the input costs.

Crop Protection raw material costs were up 5% versus prior year as we sold through higher cost inventory. Market driven and other costs were mitigated by approximately $190 million of improvement in net royalty expense and $240 million of productivity savings.

SG&A spend year-to-date is up less than 1% versus prior year, including nearly $90 million in SG&A from the Biologicals acquisitions. Excluding acquisitions, SG&A is down versus prior year by 3% as we maintained disciplined spending despite year-over-year inflation. Currency was a $220 million headwind driven largely by European currency.

Now, as Chuck noted, we're taking several large steps to optimize the Crop Protection manufacturing footprint. You can see more details on slide 9. Although this analysis has been in process for some time, given the current global macroeconomic backdrop in the Crop Protection industry, we're taking the opportunity to accelerate these actions. We expect to record pre-tax restructuring and asset-related charges of $410 million to $460 million through the end of 2024, including $320 million to $340 million of non-cash asset related and impairment charges.

Cash payments related to these actions are anticipated to be $90 million to $120 million, primarily related to the payment of severance and related benefits and contract terminations. And we're estimating annual run rate EBITDA improvement of approximately $100 million by 2025, which translates to a payback of a little more than two years. Of course, we'll keep you posted on the progress of this plan as we deliver a reliable yet flexible cost competitive supply network.

Turning now to slide 10, I want to take you through the full year guidance. We now expect net sales for the year to be in the range of $17 billion and $17.3 billion, or down 2% at the midpoint, including a 3% impact from portfolio exits. This change from our August guide is driven by lower volume and pricing expectations in Brazil Seed and Crop Protection. We continue to expect over $400 million of net sales for the full year from the Biologicals acquisitions.

Operating EBITDA is now expected to be in the range of $3.25 billion to $3.45 billion, 4% growth versus prior year at the midpoint. The updated guidance is driven by lower top line growth, partially offset by productivity and cost actions. These updates translate into an expected operating EBITDA margin of 19.5% at the midpoint of guidance, approximately 100 basis points of [audio gap] (17:01 – 17:05) margin expansion over 2022 led by the strength of our Seed business performance. Operating EPS is now expected to be in the range of $2.50 to $2.70 per share, down 3% versus prior year at the midpoint. The change in guidance reflects lower operating EBITDA, partially offset by lower interest expense and lower forecasted effective tax rate and lower share count.

Free cash flow is now forecast to be in the range of $600 million and $1 billion, with a change in guidance reflecting the lower earnings range and a forecast for higher inventory and lower payables. And as Chuck mentioned, we expect share repurchases to be approximately $750 million for the year, which includes roughly $580 million that we completed through the third quarter.

Let's now transition to the setup for 2024. Slide 12 presents the initial high-level view of our planning framework and provides key assumptions as we begin our internal planning process for 2024. Importantly, using this framework as a starting point, we expect to deliver earnings and margin growth again in 2024. After a 7% increase in US corn acres in 2023, we expect a shift back to soybeans in 2024, while also expecting the lower planted area for Brazil Safrinha. But the Ag fundamentals remain relatively healthy with US farmer income and commodity prices above historical average. However, we expect Brazil farmer margins to remain generally tight, particularly in corn, due to macro factors, including higher interest rates and lower commodity prices.

Our price for value strategy continues to be a key lever driving organic growth. Pricing for our yield advantaged technology and differentiated solutions is expected to drive low single digit pricing gains for the total company in 2024. We continue to make progress on our portfolio simplification. We expect another $100 million of volume headwinds related to product exits. And despite the impact of the product exits, we expect Crop Protection volume gains in the US led by new and differentiated products. Brazil volumes are expected to be muted due to ongoing expected market dynamics. Biologicals are expected to grow double digits with both price and volume gains.

Cost and productivity will remain a focus for the organization as we drive improved margins. While we're seeing the prices of raw materials fall, the cost improvements in Seed and Crop Protection will lag [ph] spot (20:04) commodity price trends driven by the timing of inventory turns.

In Seed, we expect another $100 million of improved royalties as we shift to more proprietary technology, and we expect to combine $100 million of productivity in Seed and Crop Protection. We'll continue to tightly manage our SG&A costs with core SG&A expenses increasing less than inflation. R&D will continue to increase as we invest in innovation for the long-term.

To summarize and highlight, we expect lower revenue growth in 2024 as well as in 2025 versus the level implied in our multiyear revenue targets. Despite this, we're confident in our ability to continue to deliver earnings and EBITDA margin within the range of our 2025 financial framework.

So with that, let's go now to slide 13 and just summarize the key takeaways. Importantly, our third quarter year-to-date operating EBITDA performance is in line with expectations led by the strength of our Seed business. Continued cost discipline and productivity actions, coupled with significant improvement in royalty expenses is making a difference to the bottom line in helping to drive more than 120 basis points of margin expansion year-to-date. The current guidance range reflects updated fourth quarter outlook and importantly still forecasts operating EBITDA and margin growth for the year. The planning framework for 2024 that we shared today supports continued earnings growth, and as you would expect, will be followed with detailed market analysis and planning assumptions when we release full year 2023 results in early February.

With that, let me turn it over to Kim.

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

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll pause for a moment to assemble that queue. But we'll first take our first question from Vincent Andrews from Morgan Stanley.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning, everyone. Dave, could I just ask you, you made the comment, it's in the slide, that you're expecting low single digit pricing for the company in 2024. It seems like it's driven mostly by Seed, but I'm just trying to get the bridge there because we see pricing in Crop Chem was down I think 4% in the third quarter. You're citing competitive pressures in two of your four major regions. What's the algorithm for next year in terms of getting the total company to flat? Is Crop Chem going to be positive or is it going to be down slightly? And then, is the Seed order book giving you confidence in the US that you're going to achieve kind of mid-single digit, digit-ish price on the Seed side of the equation to get us to low singles for the total company?

David John Anderson
Chief Financial Officer & Executive Vice President, Corteva, Inc.

A

So let me just share with you a couple highlights and then, Tim, maybe you could comment a little bit on Vincent's point about Seed. Vincent, you're right. So low single digit for the company overall is the expectation right now. And again, this is an early indication and a call it a preliminary view as part of our framework for 2024. For Seed, Tim will comment more specifically but, obviously, we're looking at continued positive, we call it price for value, as you know. So we think that's going to lead the way in terms of our year-over-year pricing performance.

For Robert's business, the Crop Protection business, we think that price is going to be generally favorable with the exceptions significantly for our LATAM buysiness where we continue to see pricing pressures. In the aggregate, we think Crop Protection pricing will be potentially up slightly to neutral to down slightly compared to 2024. So taking all that together, gets us to the low single digit for the company. Again, early. Tim, you want to comment on Seeds?

Timothy P. Glenn
Executive Vice President-Seed Business, Corteva, Inc.

A

Yeah. Absolutely. Morning, Vincent. And I'll just reemphasize what Dave said on pricing. This year we had exceptional pricing, roughly 14% year-to-date and very broad by crop and geography, testament to our technology and how we've executed across the board as an organization. Next year we do expect that to return to more of a typical, call it low single digit type of a growth on a global standpoint.

And looking at where we're at in North America, maybe the set up there to touch on that, including how things are going from a pricing standpoint and what the order position look slike. We do expect a rotation from corn to soybeans call it 3% to 4% of the area shifting back. We're well-advanced in terms of harvest in North America from a farmers' standpoint. And I'd say farmers are very satisfied with the performance of our product and that puts our current order book in a good spot for this time of year allowing for the shift from corn to beans. That said, the next 45 days are really critical for us as we lock up our business for 2024 and secure payment.

But the order position is good. Our price position in the marketplace, we've been out there since August in front of customers and putting proposals in place and it's holding strong. So we feel very good about what our pricing opportunity there and we continue to have excellent momentum in the marketplace in North America. So strong value proposition, strong execution by the team. And so, we feel good about how we're setting up for 2024 in North America despite the shift from corn to beans.

Operator: Thank you. And we'll take our next question from David Begleiter from Deutsche Bank.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Chuck, have any of the changes you've seen in Crop Protection impacted your confidence in achieving the midpoint of the 2025 EBITDA guidance of $4.4 billion?

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

A

Yeah, good morning, David. So obviously it's a pretty dynamic market that we're operating in right now. But let me just give you sort of what we're thinking, and it's a very good question and obviously we'll have a lot more to say as we give final results for the full year of 2023 in February. And then, we'll really be able to talk about 2024 and, with a level of degree of specifics that we just can't get into today. But I'd say right now the entire Corteva organization, it's remaining very highly focused on hitting that $4.1 billion to $4.7 billion of EBITDA with the 21% to 23% EBITDA margins. I'm not going to talk about the specifics in terms of exact numbers because I think that the key, I think for us is that we're still feeling very good that we're within that range.

And if you think about that just for a minute a couple of years ago, just look at what's happened right, over the last two years, we've had the Russia invasion of Ukraine, we've had a global chemical destocking. And now, we're seeing weakness in Brazil, which we haven't seen weakness in Brazil since 2015. But when you put all that together, it's pretty clear that we've also overachieved when it comes to some of the controllables. So if you recall that the framework that we laid out last year, it had four buckets; portfolio simplification, royalty neutrality, product mix and what we called operational excellence. And these were largely in our control and we've made very good progress. In fact, on a lot of these dimensions and elements, Dave, in his prepared remarks commented, we're running a year and sometimes a little ahead of program there.

So we're finding ways as a management team and as an organization to offset some of the market headwinds that we've been, that have been put in front of us. So I guess what I'd say right now is that when we look at the 2025 targets, we're still very comfortable. We're well within that range. And that, of course, assumes that we don't see another significant step down in Brazil, for example, because we are planning as part of that 2025 framework that there's modest growth in Brazil over the next couple of years. So if that was not to unfold, then we would obviously have to find ways to offset that weakness. And we've been pretty good at offsetting the weakness. If you think about just the acceleration of Enlist on those acres, you know that, that royalty neutrality is actually, we're making better progress than we thought there.

The productivity and cost management issues in this organization I've been very impressed with. Our SG&A barely hasn't moved on an apples to apples basis. And now that just yesterday, we announced sort of that next level of of our operational efficiency program, this is something that's been in the work for a very long time. We're quite pleased with the progress and that will add to the operational excellence and cost management of the organization. So when you put it all together, there's always puts and takes, but we're feeling very good that we're still on the right track when it comes to delivering that framework.

Operator: Thank you. And we'll next go to Joel Jackson from BMO Capital Markets.

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

Hi. Good morning for taking my question. In looking at your Crop Chems manufacturing rationalization plan, can you maybe highlight some of the major actions that, you did highlight high level on the slide? [indiscernible] (30:21) maybe talk about some of the low hanging fruit. Which molecules are you moving externally? Which ones did you want to make sure you're keeping internally, maybe, maybe just some really good maybe a few anecdotes or low hanging fruit you can talk about that's really driving this plan. Thank you.

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

A

Yeah. Good morning, Joel. Let me start with sort of the genesis of the program and the framework and the objectives. And then I'll turn it over to Robert to give you a bit more specifics. So as you well know, I hired Robert about a year and a half ago to run the Global Chemical business, and the program started almost immediately thereafter. So we've been on this journey for well over a year when it comes to looking at CP ops and really what we did, and Robert led the charge here for the organization, is we went out and we looked at sort of chemical operation best practices from literally around the world. It's been a very comprehensive review. It's been underway for a very long time and it's a multi-program kind of program that we're thinking about that will take us through, I'd say, the next couple of years.

And the benefits that you're going to see, we laid out some of the benefits for 2025 on a run rate basis of about $100 million. That was some of the work that we accelerated. But the real benefit for the program won't really bite until kind of post 2025. We're thinking that there's going to be very significant benefits between 2025 and 2030. And really the objectives are, if you think about our vision, is we want to bring our CP Ops into kind of the modern operating world of chemicals.

Safety is one of our core values. It's very important to our company and that would be at the first and the top of the list when it comes to the objectives that we're trying to implement here. We also want to improve our supply reliability. We think we handled COVID pretty well. I think our performance was very good. But we, but there's always room for improvement there. And then, of course, cost competitiveness. This industry is shifting. It's quite dynamic. And we want to maintain our global cost competitiveness.

So what you're going to see is that we're going to shift the model to sort of more asset-light and use really some third-party manufacturing, but really drive supply redundancies. That's going to be critical. And then some of the key technology that we own and as you know, our portfolio is increasing in this area. Those are assets that we're going to manufacture molecules from ourselves and really invest in modernization, driving advanced control technologies. And in some cases, and this is important, we're going to be moving to sort of the next generation of CP manufacturing, which is modular or flexible type technology. Because in today's world, the next generation of CP, we don't require big volumes in massive plants anymore. These, and then of course you know the IP footprint is accelerating. So when you think about what's needed in the next generation of CP, we need smaller, more nimble facilities that we can produce these plants relatively cheap, products relatively cheaply, and that will move us into sort of that modular manufacturing mode.

So that's kind of the vision that we had for CP. And then Robert, maybe you can just give a little bit specifics in terms of the announcement that we made yesterday.

Robert King
Executive Vice President-Crop Protection Business, Corteva, Inc.

A

Yeah, the announcement yesterday is one that will be a big step forward for us. It's when you look at the pieces that Chuck laid out there, really focusing on what can we control? And this one is a big part of the strategy that we laid out in Investor Day, where we're, our journey is to become excellent in operations. And we don't take that lightly. It really underscores the approach of shifting more to an external supply balance with asset-light capital. That's going to improve our cost competitiveness and our network flexibility to be able to respond and change with the ever, ever changing market that we're in.

The thing about this is that this is something that we started on about a year ago, I think, as Chuck said, but we've been able to do some acceleration. The environment's allowed us to do acceleration but we've been working on this for some time. So the execution of these actions is going to allow us to not only drive profitability, but we're going to be much more competitive in the market from a cost standpoint. And it puts us much further down the road.

Operator: Thank you. And we'll next go to Kevin McCarthy with Vertical Research Partners.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes, good morning, everyone. Question on cash flow and deployment. If I consider your updated guidance on free cash flow as well as the remainder on your share repurchase commitment for 2023, it seems like you could end the year with more or less zero net leverage. So two questions would be is, is that fair or not? And, more broadly, Chuck, what are you thinking about deployment for 2024 and beyond?

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

A

Now, why don't, Dave, you talk maybe the numbers and then I'll answer the deployment question.

David John Anderson
Chief Financial Officer & Executive Vice President, Corteva, Inc.

A

Yeah. Yeah. Kevin. So yeah, thank you, Chuck. So, Kevin, exactly. I think you're right. Just to refresh, we've updated the free cash flow guide as of today to that $600 million to $1 billion for the full year. Really the difference, as we pointed out in the prepared remarks, really has to do with some higher inventory levels as a result of reduced volume outlook as well as lower payables, which come goes with what Robert also stated just in terms of managing our current production capacity in light of the of the market demand or overall volume.

So your estimate about essentially being zero net debt, I think that's a reasonable forecast at this stage when you think about where we are in [ph] translating that (36:40) cash flow. And it does include, as we mentioned, the $750 million of share buyback for this year. Chuck, you want to comment a little bit about 2024?

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

A

Yeah, sure. So, Kevin, the way we're thinking about it, the $800 million at the midpoint that Dave provided and then the strength of this balance sheet, we have a lot of financial flexibility as an organization. We also have an A minus credit rating. So when you put all that together and we've made very progress, I think, on managing our working capital. It's been challenging because of the destocking that went through the global industry, but we don't think that next year will require, Dave, a significant investment in working capital. In fact, it could be a source of cash.

David John Anderson
Chief Financial Officer & Executive Vice President, Corteva, Inc.

A

Yeah, definitely.

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

A

So when you put all that together, we think that there'll be incremental free cash flow in 2024. So your question is a good question, how are we thinking about it? And the way we're thinking about it is we think that the formula that we've got right now works. We prioritize organic growth in the organization. And as you know, we're increasing investment in R&D. We're absolutely committed to that. We think it's the right thing to do longer term. But we also are now returning a significant capital to shareholders, which we have been a very good track record of doing that. And this year, $750 million is a testament to that. And I would expect these decisions are obviously board decisions, but I would expect that that formula that has served us well, I think, is something that we will certainly have a very good look at going into 2024.

The other area, though will be inorganic growth. So last year, we made two acquisitions in Biologicals and I'd say we're very pleased about the performance. Even in this market backdrop, the Biologicals businesses are performing very well and Dave gave some of those numbers today. And even next year these businesses are expected to grow double digits. So, we would be looking for other acquisitions or mergers or commercial relationships in the Biologicals space for sure. And then, of course, any other opportunities that we think would drive long-term shareholder value.

So I think what you're going to expect to see is really a balanced approach to the allocation of capital, organic growth, some inorganic growth perhaps, and return of capital.

Operator: Thank you. And we'll next, go to Frank Mitsch with Fermium Research. Please go ahead.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Good morning. Just curious now that Chlorpyrifos is back in the news and the courts have rejected the EPA's decision of a couple years ago and is now allowing it. I know that you guys said I believe you stopped producing it couple years ago. Just curious if you have any updated thoughts regarding Chlorpyrifos and the recent rulings and what your future strategy might be there?

Robert King
Executive Vice President-Crop Protection Business, Corteva, Inc.

A

Really no change in our thinking, Frank, at this point in time. This is a – this is a business we made decision to exit strategically. It fits as well, that decision fits as well with our overall portfolio criteria today. So appreciate the question. But no. No real change, no update in terms of our thinking.

Operator: Thank you. And next, we'll go to Steve Byrne with Bank of America.

Stephen Byrne
Analyst, BofA Securities, Inc.

Q

Yes, thank you. Don't your Crop Chemicals have registrations that specify where they're manufactured and thus is that a challenge for you to shutter facilities because then you'd have to have the respective registrations in countries and crops revised? Or is that less of an issue for the plants you're targeting? You mentioned Pittsburg, California. Are we right on that? That's where you make your nitrogen stabilizer, which wouldn't have any relevance to registrations, is that right? And maybe one broader Crop Chem question, and that is, any lessons learned on this destocking that you've seen this year that you had a competitor yesterday that doesn't seem to have that same issue? Is there some fundamental reason why this is more challenging for some than others?

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

A

Good morning, Steve. Maybe, Robert, you can answer the registration questions and I can come back with the lessons learned.

Robert King
Executive Vice President-Crop Protection Business, Corteva, Inc.

A

Sure. Frank, you're right. Anything that we produce does have registrations. It does tie to where it's made, and then, of course, where it's applied. Optinyte is one of the main products that is made out of out of Pittsburg that is are nitrogen stabilizer. It goes into what brand name N-Serve and Instinct NXTGEN. And both of those are our leading, industry leading nitrogen stabilizers that is a good business for us. And so, we have plans to move that production to another location. We will continue to serve our customers seamlessly through this time and we'll be in a better position in the future for this product to continue to serve the market.

So the registration and things are part of the planning process when, anytime we move products are we, many times, we always have redundancy built in our system. And so we have other plants registered many times. This is one that will be moving to registration and that's all in the plans and timing of the overall transition here. So yeah, good question. Absolutely. Something we have to do and it's always in the planning when we go to rearrange our network.

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

A

Yeah. And Steve on the global CPD stocking. Look, I think every player in the industry has been involved in this in some dimension or degree. So, are there lessons learned? Obviously, there is. And when we look back on it, were there signs of sort of a build-up in the channel? Yes, there was. We watch this data very carefully. We have a lot of insights in terms of what's going to ground and what's going into the channel. And when you look back over the last couple of years it was pretty clear that the demand on the farm was nice and consistent, and that was a good observation. It still remains that way today.

But there was more product going in the channel than going out of the channel. And so, that was clear. But like we've internally discussed, these were orders that were coming from long established partners in the channel. These are major players that manage their inventory quite well and these were real orders. And so when we started to think about this, I'm not sure we missed that. I think that there was a view that perhaps the on-farm demand would continue to increase and that didn't happen, obviously. But the demand has been quite steady.

I'd say, if there was one area where when we look back now and we see what's happening in Brazil because look, the US destocking, I would say, is more or less, and there are pockets, but more or less behind us, which is the good news. But in Brazil, what we're seeing is that there's still elevated channel inventories and that dynamic is different. The influence there that we're finding is that there is a significant amount of generic supply coming into the country, which is impacting the overall products that are available in Brazil. And that is slowing down the destocking. And some of this data is visible and some of this data is less visible. And it was very difficult to put it all together, but it is pretty clear to us now that we've got sort of a unique situation in Brazil that where we're seeing sort of generic pressure coming into the marketplace.

And that is an area where we, whether we are the only company that missed it. I don't know about that. But it is something that was, that when once we started to look for it, you could clearly see that there's elevated inventories now coming in from offshore from mostly from China.

Operator: Thank you. And next, we'll go to Jeff Zekauskas from JPMorgan. Please go ahead.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. There are two questions. In terms of your operating cash flow, you're $460 million behind where you were last year when you generated roughly $900 million in operating cash flow. So to get to the bottom of your operating cash flow range of $1.2 billion, you've got to do $3.8 billion in the fourth quarter versus roughly $3 billion last year. And your inventories are higher and receivables are higher and payables are lower. Can you really get to that, to the bottom of the range? And then secondly, on a normal basis, what should your operating cash flow be in general or relative to your EBITDA? It gyrates so much positively and negatively.

David John Anderson
Chief Financial Officer & Executive Vice President, Corteva, Inc.

A

Yeah, Jeff, those are, this is Dave. Those are good question. So you're right. There's a lot of, a lot of free cash flow or cash from operations to be generated in the fourth quarter. When you look at it, though, on a year-over-year basis, if you will, the change on the change, it's significant related to receivables slowdown, reduction, which is very understandable in the light of the revenue outlook. And by the way, while DSO's have ticked up a bit, it's still within, they're still within a very healthy parameters compared to historic averages.

And then the other thing is inventory, because we are bringing inventories down as a result of the volume declines, and as I mentioned earlier and Robert referenced also, the reduction in procurement or purchasing as a result of those lower volumes. So both receivables and inventory will be sources of cash on a year-over-year basis, an important deliverable in the fourth quarter. Payables, on the other hand, will represent a headwind. Deferred revenue is not much of a change compared to prior year. So that, that's really not significant. It doesn't play really into it. It's really a working capital story.

In terms of run rate, kind of where we want to be, where we need to be. I'm using, I'm going to use free cash flow as opposed to cash from operations. So after CapEx, free cash flow, we think in again in the range of building to 40% then to 50% and so forth is very, very reasonable for the company. In 2024, when we look forward, will again have a positive from working capital we believe. We'll have a little bit of increase as a result of what we just mentioned on the restructuring for the Crop Protection business in terms of cash outflow on a year-over-year. There are some other puts and takes. But next year should be a good year for cash flow for the company. Thanks. Thanks for the question.

Operator: Thank you. And we'll next go to Adam Samuelson from Goldman Sachs.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Yes, thank you. Good morning, everyone. I wanted to maybe come back to the Brazil destocking and Crop Protection volume outlook a little bit more closely. And maybe just can you be a little more clear on what the volume expectations would be for Brazil and Latin America broadly in the fourth quarter on volumes? And how, at this juncture, are you thinking about the shape of that volume through 2024 given what potentially could be some more carryover inventory if channel inventories are still high and planted area, especially for corn, isn't actually growing.

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

A

So, Dave, do you want to cover that? And I can provide some comments too. But go ahead.

David John Anderson
Chief Financial Officer & Executive Vice President, Corteva, Inc.

A

Yeah. Yeah. So we will see some growth in the fourth quarter in Brazil. And part of the reason is it compares to, and this is on the Crop Protection side, it compares to an order pattern and a sales pattern of last year, which, as you recall, was much more significantly accelerated. We saw basically a very significant increase in orders last year for Brazil compared to this year in terms of the quarterly pattern.

When we look for 2024, our preliminary thinking, and I think I mentioned this earlier in the prepared remarks, we're looking at basically kind of flat, flattish or muted volume growth on a year-over-year basis. We expect some of the macro conditions to continue that are characterizing the second half of this year.

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

A

Yeah, Adam, the way I think about this is if you think about Q4, CP Brazil the midpoint of the guide or the guidance range, we're going to see continued weakness both in volumes in CP in our business and price because of the influence that Dave just described. And the channel still has to go through some destocking. So the way to think about Q4 is continued weakness in terms of volumes and some stress on price because of the destocking.

That we expect will continue at least into the first couple of quarters of 2024. Because the channel is destocking the rate of destocking, though, is just lower than we had expected. And so, when I look at this, I'd say we're going to get to a destocked Brazil. I can't tell you exactly when. But from a planning perspective, we're going to assume that at least for the first two quarters of 2024 that we're going to see some weakness when it comes to overall volumes because of the destocking.

David John Anderson
Chief Financial Officer & Executive Vice President, Corteva, Inc.

A

Let me let me correct because I was looking at another data point when I reference the Latin American Crop Protection. We're actually going to see volume declines...

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

A

Yes.

David John Anderson
Chief Financial Officer & Executive Vice President, Corteva, Inc.

A

...in the fourth quarter in Crop Protection. So correct that. Thank you.

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

A

Yes.

Operator: Thank you. And next, we'll go to Aleksey Yefremov from KeyBanc Capital Markets.

Aleksey Yefremov
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks and good morning, everyone. I just wanted to follow up on competitive dynamics in Brazil, specifically the shift to more generic supply and how you think this is going to evolve in terms of long-term competitive status of that market and also pricing next year?

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

A

Yeah. So I guess at the highest level, we still think Brazil is a fantastic market. It's one of the only markets in the world that will continue to grow production. And certainly Corteva is absolutely committed to the market. In fact, if you think about Brazil over the last, since 2015, the last time we sort of had a pause in that market, soybean hectares are up something like 30%. Corn hectares up something like 40%. So it's just been a great growth market and a lot of companies have enjoyed that.

But Brazil has never been a straight line up, nor will I believe it will ever be an easy market to do business in. And there's going to be periods, I think, where we're going to see a pause or even a step back. But we're still highly committed to that, to this market. Now, when I talk about generics, I guess let me define it for you. These are organizations that produce molecules that are, it's not the off patent companies. These organizations have no local representation in country and no service, which is very important. They ship the bulk molecule into the country and then they assume that it'll be picked up by distributors or a lot of times it goes direct to large farmers.

That's how we define generics. And generics have always been a part of the global CP market. I don't think there's anything new here except potentially one thing. So generics have always been part of the global market. It's always been a slightly larger part of the Brazilian CP market. Where I think we've been observing in the last, I'd say, three months or so, is that there's a new level of aggressiveness when it comes to pricing. In fact, we would say that a lot of these molecules, the prices that they're selling for, would not cover their their full cost.

So where does this go to your question? We think that this is not sustainable, and there's a lot of reasons why that is. But there is a performance trade-off for these AIs that I think it's important. Many of these AIs are older chemistry, and so they'll have resistance issues. And a lot of the farmers and I'd say many and most of the farmers really want the service. And in Brazil, especially, technology does matter. Given the insect and disease pressure that that country has, you can get away with generics for a short period of time, perhaps, and make the cost performance trade-off. But longer term, I think that there's going to be a growing place for differentiated technology, especially when it's backed by high service. And so, we don't think that this is a structural change in the country, but it is a reality today that we have to deal with.

Operator: Thank you. And we'll next go to Ben Theurer from Barclays.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Hi. Yeah, good morning and thanks for taking my question. Just wanted to, if you can maybe elaborate a little bit also on what you're seeing in the other markets. We spend a lot of time North America and South America right now. But looking into some of the dynamics in EMEA and Asia-Pacific, like early stage, how do you think about these two regions looking into 2024 in a similar way you've provided us a framework for North America and Brazil and some of the commentary. Anything you can share on EMEA and APAC? Thank you.

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

A

Yeah. So let me give you the backdrop and then I'll turn it over to Tim, maybe you can cover Seed, and Robert, you can cover CP. The backdrop, as we said in the prepared remarks, the fundamentals are still, they're still robust. They're mixed given the Brazil weakness we're seeing. But there has been record demand for biofuels. And in fact, feed demand is quite high in North America. So global stocks to use are ticking up a little bit. But overall, what we're expecting is that there'll still be healthy farmer dynamics and that's exactly what we're seeing. Farmers are still prioritizing their investments in yield and production either they're managing this very, very well. And we don't see a very significant shift in sort of buying behavior except for the kind of the thing we've talked about many times, the move to just-in-time. So the overall Ag market fundamentals are healthy. And maybe, Tim, you can talk about go around the regions in Seed and then we'll do the same thing in CP.

Timothy P. Glenn
Executive Vice President-Seed Business, Corteva, Inc.

A

Yeah, Chuck. So EMEA as you can see from our results this year a lot of volume pressure in EMEA. Really strong pricing. So excellent results considering how the volume was down. But, take Russia off the table as that was a big chunk of our volume decrease in Europe. We saw general reduction in the planted area this year for corn as a lot of what I'd say stranded corn in Ukraine was migrating into Europe and put a lot of pressure on the local commodity price. Farmers planted less corn.

As we go into next year, we see that situation, I would describe it as stabilizing. So not necessarily a recovery, but stabilization is the way I think about it from a European Seed standpoint, which is a positive step. That was, that's a very positive step. We talked about North America, so I won't touch on that. Latin America, obviously, this year heavily influenced by the, I'll call, the glut of corn in Brazil reducing the Summer and Safrinha area. And I'd say a sort of a recovery in Argentina, although they're still dealing with a little bit of weather issues.

And as we go into 2024/2025, we get past this season, our assumption is that Brazil, we will absorb that stranded corn that's been putting pressure on the commodity and that they'll be back to more of a typical call it a recovery kind of a flat, we'll assume more like flat to slightly up, low single digit growth on corn area next year. And in terms of Asia Pacific very small for us in Seed. We do business in specific countries there. I'd say in the ASEAN countries, heavy dependence upon the El Nino effect and what that does to local weather conditions. Markets are generally strong, just sort of weather dependent.

Asia Pacific or excuse me, India or South Asia, healthy market. I'd say good demand for corn and oilseeds there, which is hybrid mustard. And again, a little bit of weather dependence there as we go through but fundamentally strong and businesses are in a good spot for us.

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

A

Robert, CP?

Robert King
Executive Vice President-Crop Protection Business, Corteva, Inc.

A

Yeah, we'll walk around CP, we'll start over in EMEA. This year and moving forward we're seeing a good pull on our high technology molecules and the new products over there. With the challenges that you see from a CP, I guess, regulatory environment, social pressures in Europe, they have a special challenge that we don't have everywhere else yet. And our products are doing very well there. When you think about some of the products like Arylex, that is a herbicide that is in the cereals area there is one that's doing very well.

And, the low use rate of that is something that plays to the environmental regulations there. This is the one you think about a sugar packet covers 2 hectares and the technology that's going into that. The other thing in Europe that is going to be an opportunity for us as we move forward is the acquisitions around the Biologicals and the growth that we'll begin to see in Europe as we progress over the next few years with registrations and new products there. It plays right into the need there, especially in the fruits and vegetables market of Europe. There is a big need for new technology for these growers. And so we're seeing good, good progress in Europe. We expect we gained market share this last year, and we're positioning for a good year this next year as we move forward.

Shifting over to Asia, as Tim said, the weather, there has been a challenge shifting from, into El Nino from La Nina. And that has put India planted acres this year down. But those will recover. This is a shift in weather and we will see that rice planted acres rebound this next year.

The thing about Asia is that we have some really good products going into the rice market. Rinskor being a new one that has been launched that controls herbicide in rice and then mix that with our brown plant hopper product Pyraxalt. And we've got two leading technology products there that will grow in this rice market of Asia that we have.

When you look at the inventory in Asia, we're in a pretty good spot, despite the weather, despite the slowness that we've seen in some places, I would say that we're in a much better position than others that have some pretty high inventory in the channel. And we expect as soon as some of the things shift there, we're going to be in really good position moving forward.

Finally, I'll leave you with Japan. And as you think about that market we don't speak about it a lot because it's not huge for us. But again, a large fruit and vegetable market. Biological plays well into that area, plus some of our low-use rate new products. And so overall in Asia, we expect continued growth. We expect that technology is going to continue to play a big part and we're well-positioned for both.

Operator: Thank you. We'll take our final question from Joshua Spector from UBS.

Lucas Charles Beaumont
Analyst, UBS Securities LLC

Q

Good morning. This is Lucas Beaumont on for Josh. So was just wondered if you could please expand for us on your comments regarding the flow through of Seed and Crop Chem cost next year. So you mentioned sort of more of a lag of higher costs that are flowing through inventory and into the P&L. So if you could sort of just aggregate some of that for us into like whether you expect cost to be sort of up or down next year between Seed and Crop Chems. And maybe overall, like if you need to split it between first half, second half to help us kind of highlight the lag impact, that'd be great. Thank you.

David John Anderson
Chief Financial Officer & Executive Vice President, Corteva, Inc.

A

Okay. So this is Dave. Yeah. Thanks for the question. So we're starting to see. As you know, we're seeing the price cost of raw materials fall. We indicated in our prepared remarks that we are seeing continued inflation in the third quarter for the Crop Protection business, but that's going to now start to come down in the fourth quarter and we anticipate again early, but we anticipate favorability in 2024 on a year-over-year basis.

In both Seed and Crop, it's going to be influenced by inventory turns, which is a result of inventory and translating to cost of goods sold. The timing of that, that's going to be a little bit of a buffer, if you will, against just either spot ingredient or input costs or spot commodity costs in the case of Seed. It'll be a little bit also slower to actually translate in terms of cost benefit in the first half of the year just because of that phenomenon. It's just, it just takes a while. But overall, we're heading in the right direction. Feel very good and more to come in 2025. So we'll see another lift, another improvement as we look out to 2025.

Operator: Thank you. I'd like to now turn the call back to Ms. Kim Booth for any final remarks.

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

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: Thank you. Ladies and gentlemen, that does conclude today's conference. You may now disconnect.