Corteva Agriscience 2Q 2020 Earnings Conference Call Transcript

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Operator

Please stand by - we're about to begin. Good day and welcome to the Corteva 2nd Quarter Earnings call. Today's conference is being recorded. At this time I would like to turn the conference over to Megan Britt. Please go ahead.

Megan Britt
Investor Relations Director

Good morning and welcome to the second quarter and first half 2020 earnings conference call for Corteva. I'm pleased to be joined today by Jim Collins, Chief Executive Officer; Greg Freeman, Executive Vice President and Chief Financial Officer; Tim Glenn, Executive Vice President and Chief Commercial Officer; and Rajan Gajaria, Executive Vice President of Business Platform.

We have prepared presentation slides to supplement our comments during this call which are posted on the investor relations section of the Corteva Web site and through the link to our webcast.

During this call we will make forward-looking statements regarding our expectation for the future. Slides 2 and 3 and our earning release contain our forward-looking statements disclaimers and our SEC filings provides discussions of some of the factors that can cause material differences in our actual result.

We provide the pro forma basis discussion in our earnings release and slides. Unless otherwise specified, all historical financial measures presented today exclude significant items which can be found in the schedules that accompany our earnings release.

We will also refer to non-GAAP measures, a reconciliation to the most directly comparable GAAP financial measure, where available it is provided in the earnings release and on our website.

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

Jim Collins
Chief Executive Officer

Thank you, Megan, and great to be with all of you on the call today. Corteva has been a public company for over a year celebrating our one-year anniversary in the second quarter. Scanning the unprecedented events that punctuated our first year I'm proud of the operation agility that we have demonstrated in the market place and the determination and integrity of the team that is shaping our company.

Slide 4 captures the principals that are guiding our actions during these challenging times. These quarters our teams were called to respond to the continued impact from the global pandemic, a 500 years flooding event at our manufacturing facility in Midland, Michigan, and tragic events in United State that brought racial inequity to the forefront globally.

We've maintained a common set of principles and values in how we are responding to these events that place employees safety and security, business continuity of our customers, and caring compassion for our communities at the heart of our response.

I'm very proud of how our global team is operating through these challenges keeping our purpose of enriching lives in focus. Growth of COVID-19 and employees' safety and security continue as a top priority and the global crisis management structure that we have activated at the outset of the pandemic remains in place.

We've also maintained our work-from-home stance where possible and enhanced safety and security protocols at our work sites for central personnel. In the second quarter we completed detailed planning for our ultimate return to work sites.

We're also evaluating institutionalizing efficiency gains as a result of our current work stance, particularly our digital capabilities, that enable more flexible and cost-effective work arrangements.

Beyond employees' safety, we are also actively engaged in keeping our supply chains open and supporting our customers and communities.

In May our team safely managed an emergency site shutdown and ultimately a restart as a result of the flooding events in Midland, Michigan with minimal cost or disruption to the business. Here again we leverage our supply chain resiliency and global asset footprint to mitigate product supply disruptions.

We were also active in the Midland community contributing to the local United Way to support broader recovery efforts there. I'm proud to say that through all of this uncertainty we never missed a shipment.

Recently, tragic events that have taken place in the United State have put all our inclusion and diversity practices in a spotlight. Corteva believes the basic principles of human dignity, equity, inclusion and diversity are essential to every business in every industry. The recent events make it clear that we have work ahead of us to build a fair and more equitable society.

At Corteva, we acknowledge this opportunity and had taken swift and deliberate action to move the crucial conversations and essential work needed to manifest change forward. We've increased focus on inclusion and diversity and equity efforts already in place in our organization and within our communities to amplify the voices and programming vital to sustaining this important forward momentum.

Turning to our strategic update for the quarter, progress on our priorities for shareholders value creation is noted on slide 5. Starting with culture with an owner's mindset, our teams across the company are focused on reducing spending to both preserve cash and to help offset the impacts from the global pandemic.

This focus resulted in $15 million in savings in the first half. These additional actions include the implementation of a hiring freeze, delaying employee promotions and relocations, and holding our current work-from-home stance in place for several geographies for an extended period.

These actions are added to our previous effort to eliminate non-essential travel for marketing standards, eliminate large and in-person meetings, and scale our digital activities.

Regarding capital allocation, in May we fortified our balance sheet and liquidity positions with the issuance of $1 billion in long-term notes. We anticipate using a portion of the proceeds from issuance to term out our intra-year commercial paper borrowing needs to support seasonal working capital requirement. We are also evaluating additional capital deployment actions for the reminder of the year.

In the head off we acted on opportunistic M&A, acquiring full ownership interest in the PhytoGen Seed Company, and worked to fulfill our commitment to return cash for shareholders. We've returned approximately $250 million to shareholders in the form of quarterly dividends and share repurchases through the first half of 2020.

Advancing our portfolio of innovative solutions, I'm pleased to report that in the second quarter we exceeded our expectation for Enlist E3 soybeans across our brands, scaling the technology platform to 17% of our soybean product volume in 2020.

Looking forward, the recently issued Ninth Circuit Court ruling on Enlist Duo gives farmers added confidence in our technology, and we are working aggressively to further expand the seed volume available in the marketplace and in our portfolio in 2021.

Beyond Enlist E3 soybeans, new Crop Protection and product launches continue to drive both sales and earnings improvement. We remain on track to deliver $100 million in earnings improvements from new Crop Protection products for the full year.

On our priority around best-in-class cost structure, we delivered $130 million in cost synergies and productivity through the first half of the year, exceeding the original target set for this timeframe. We remain on track to deliver $230 million dollars for the full year.

Finally, on above-market growth in the first half, organic sales were up 5% overall with growth in every region. Notably, we delivered low single-digit price improvements in corn seeds and soybeans seeds in North America for the half, capitalizing on the yield advantage for Qrome corn seed. The launch of Lumialza seed treatment had solid global demand for Enlist E3 soybeans.

We also delivered strong organic results in Europe and Asia Pacific in both Seeds and Crop Protection. In Latin America we faced headwinds from sharp currency devaluation timing shifts and formulation challenges in Vessarya fungicides that we expect to resolve in the near term.

Finally, our results in North America were supported by the acreage rebound but tempered by a less favorable corn acreage increase in Crop Protection market competitiveness.

The next slide, slide 6, frames several of the market-related drivers for the quarter. While we expect to capitalize on more favorable weather conditions this year, the COVID-19 pandemic has created unexpected impact across the agriculture sector.

While the Ag industry has demonstrated resilience relative to other sectors, the global pandemic and economic downturn have impacted demand for the highest value goods, namely meat and ethanol. Lower demand for both products and anticipated build in US corn stocks weakens corns commodity prices relative to other crops at the outset of the North America planting season.

From the first of March, at the end of the quarter, US corn prices have fallen sharply, declining 11% over the course of the planting season, and pulled down the 2020 corn planted acres.

Based upon the USDA acreage report, released at the end of June, we believe 92 million acres of corn were planted which represents a 5 million acre reversal in expectations between the March and June reports. This is one of the largest swings in the USDA estimates in the last 20 years.

The lower corn acreage rebound reduced some of our volume and margin opportunity in the second quarter. In addition to the deterioration in US corn area expectations, the pandemic-related slowdown has also driven significant currency exchange rate volatility.

The strengthening of US Dollar relative to several foreign currencies through the first half has impacted our ability to deliver planned growth, particularly in Latin America, where the Brazilian Real has weakened more than 30% to the US dollar since the beginning of the year.

Regarding trade expectations, currency volatility has impacted the relative prices between the major exporters too. Though China has recently increased purchases of corn and soybeans and wheat from the US, weak South America currencies have made South America grain offers to importing countries more competitive.

Moving to slide 7, we show our key performance indicators for the first half. These indicators carry signposts of our success in overcoming some of the market diversity and highlight several execution imperatives for delivering a strong second half. Net sales on a reported basis for the first half increased 2% versus the prior year.

Currency, particularly in Brazil and Europe, was a 3% headwind. 5% organic growth was propelled by 4% improvement in volume and 1% improvement in price driven by organic gains in the seed segment in every region and continued new Crop Protection product growth in Europe and Asia Pacific.

In Seed, organic sales were up 8% due to the acreage rebound and improved price in North America. Market share gains in Brazil, and Europe corn, and strong volumes in price gains on new products, particularly Qrome and PowerCore Ultra.

In Crop Protection, organic sales increased 1% supported by continued growth in new products, notably Arylex herbicide and Isoclast insecticide, particularly offset by declines in Latin America and North America.

Unfavorable timing, product formulation challenges and market competitiveness suppress our second quarter Crop Protection results. We have an opportunity to change this course in the second half. Operating EBITDA increased 3% and operating EBITDA margin improved by more than 20 basis points for the first half. In Seed, price and volume gains in all regions, and productivity improvement drove a 160 basis point gain in margin for the second.

The Crop Protection earnings expansion from new product sales synergies and productivity improvements were overcome by unfavorable geographic and product mix. Currency reduced earnings by approximately $110 million for the first half.

During the quarter we have taken steps to limit the further downside risk on currency by deploying new financial hedging instruments. SG&A as a percent of net sales increased by approximately 15 basis points in the first half. We made early progress to deliver on our spending actions however this was more than offset by spending in the form of higher commissions in Seed, ERP costs, and product launch costs.

These indicators affirm a solid regional execution in Seed that leveraged our differentiated technology position, advantaged route to market, and flexible supply chain to overcome the challenges related to COVID-19.

In Crop Protection our results through the first half demonstrate the continued adoption of our new and differentiated products while also highlighting areas where we can and will do better.

Slide 8 provides an overview of the key areas of momentum as well as the challenge related to the operating EBITDA for the first half. Starting with Seed pricing, which has been an area of focus, we successfully extracted price improvement in corn globally, consistent with the volume of our portfolio, which was largely supported by the increased penetration of Qrome in our broader US product portfolio.

We estimate that corn delivered approximately $80 million in pricing through the first half. As we've now completed the bulk of our deliveries in soybeans, I can also confirm that we exceeded our initial expectations on US soybean price with price gains of 1%. This outcome is a result of our strong execution in the marketplace despite intense competitiveness.

As I noted earlier, new product sales and Crop Protection are tracking according to plan. We are executing our synergies and productivity as we had expected and offsetting the seed cost of goods sold and increased royalty cost headwinds we anticipated for the year.

But we made early progress on spending actions that helped to partially offset the increases of SG&A through the half. This is an area where we will gain more traction in the second half. As I noted earlier, currency was a headwind on the first half. During the quarter we took pricing actions to partially offset currency, largely in Latin America, and we launched new hedging programs to mitigate currency risk, notably in Brazil, for the second half.

Finally, there were several headwinds that emerged in the second quarter that dampened our first-half performance. The first is in corn acres in the United States, which were lower than we expected by 3 million acres, and 5 million acres lower than the USDA's earlier estimates, as I mentioned earlier.

Remember, a 1 million acre change in corn in the US represents approximately $20 million in operating EBITDA. Second, we had a formulation challenge with our Vessarya fungicide product in Brazil that resulted in product returns that we will rework and reposition in the channel in the third quarter.

On herbicides volumes, we saw increased market competitiveness in soybean herbicides in the United States, which impacted our volumes there. In Latin America last year, we recognized $80 million in net sales in the second quarter on an early start to the season, largely in herbicides.

We are seeing a more normal start to the season in Brazil this year and expect to see those volumes realized in the third quarter. With that, I will now hand the call to Greg.

Greg Friedman
EVP & Chief Financial Officer

Thank you, Jim. As we have covered first-half performance, I'll provide more insight into our second quarter results on slide 9. Net sales of 5.2 billion were down 7% versus prior year on 4% lower volumes, currency headwinds at 3%, and a 1% decline from portfolio.

Price was a 1% increase for the quarter, primarily due to pricing actions in Latin America to offset currency. Early seed deliveries in North America shifted volumes into the first quarter. This was coupled with the headwind related to a strong start to the Latin America Crop Protection season in the prior year.

Additionally, competitive pressures in North America herbicides contributed to lower volumes in the second quarter. Partially offsetting this was continued penetration of new products in Crop Protection where sales increased 8% for the second quarter versus prior year. This increase includes the unfavorable impact due to rework from Vessarya fungicide sales in Latin America.

Turning to operating EBITDA, we reported $1.24 billion for a 15% decline versus the second quarter of 2019. Overall declines were led by lower volumes in Seeds, due to seasonal shifts in North America, higher SG&A cost, and the unfavorable impact of currency. Partially offsetting headwinds in the quarter, we continue to see realization of synergy and productivity, along with early progress from spending actions as a result of the global pandemic.

Our operating EBITDA margins were equally pressured in the quarter down 230 basis points from the prior year. Again, this is largely due to the shift in volumes and mix to the first quarter and headwinds from currency. For the quarter, operating earnings per share were $1.26, down 11% from the prior-year period.

Turning to slide 10 for an update on our 2020 guidance, last quarter we suspended our guidance due to the heightened level of uncertainty related to the global pandemic and economic downturn, predominately around currency, and the set-up for 2021 demand.

Today we are updating our financial guidance for the year. Our guidance does not contemplate any further operational disruptions, significant changes in customer demand or ability to pay, or further acceleration of currency impact resulting from the COVID-19 pandemic.

Starting with net sales, we expect more than $700 million in currency headwinds for the full year, partially offset by pricing and the North America market rebound, resulting in 1 to 2% growth over the prior year on a reported basis.

On an organic basis, we expect growth between 5 and 6%, with price and volume gains globally. Turning to operating EBITDA we now expect to deliver a range of approximately $1.9 to $2.0 billion.

This guidance reflects nearly $500 million of operating EBITDA headwinds from the prior year to the currency and one-time gains of asset divestitures in 2019. For operating EPS we expect to deliver between $1.25 and $1.45 per share. We have provided detailed modeling guidance in the appendix of our presentation.

To help illustrate our expectations on guidance, slide 11 details some key assumptions on the second half. Starting with sales, we expect organic growth of 6-7% in the second half over prior year. This is largely due to growth in Latin America volumes in Crop Protection which includes a favorable timing shift of $80 million in sales compared to the prior year.

Offsetting this is an anticipated reduction in seed deliveries in North America for the fourth quarter. Specifically, we have considered the uncertainty around our fourth quarter Seed deliveries in the U.S. as market dynamics for the 2021 season continue to take shape, and we have appropriately adjusted our expectations.

On pricing, the large part of year-over-year improvement is in Latin America. This improvement is predominantly due to changes in local prices as a result of devaluation of the Brazilian Real. In Crop Protection, new product will continue to ramp globally, building on our first-half momentum.

In total, we expect an incremental $150 million in new product sales for the second half compared to the prior year. Our estimates include the sales related to rework of Vessarya that negatively impacted our first half results. On currency we are estimating approximately $500 million in sales headwinds over prior year largely due to the devaluation of the Real.

This translates into an approximate $300 million headwind to operating EBITDA. During the quarter, we launched new hedging programs to mitigate further downside risk, most notably in Brazil. I'm confident that we have put the necessary tools in place to manage future downside risks for the year and provide more predictability in our forecast.

Turning to cost, we remain committed and fully expect to deliver on the full year merger-related cost synergy and productivity actions, targeting about $100 million for the back half to hit our full year commitment. For SG&A and R&D, we expect cost to be approximately 20 million higher over prior year.

Higher investments to advance the pipeline in Crop Protection, along with cost to launch new products and operating expenses associated with the ERP implementation are driving the increase. Partially offsetting this are the actions we are taking in the organization to curtail spending.

I'll now hand it over to Tim for some perspective on our sales execution for the second half.

Tim Glenn
EVP & Chief
Commercial Officer

Thanks Greg. Turning to slide 12. For the second half, our fundamental priorities are unchanged in how we look to win in the market. It's working closely with farmer customers and channel partners to create demand for high value solutions and delivering that technology to our customers to help drive productivity in their operation.

Starting first with global execution, our regional teams are focused on continuing to penetrate markets with new technologies, particularly in Crop Protection, with new products like Arylex and Rinskor herbicides in Europe and Asia Pacific, and Isoclast insecticide in Latin America.

We're also managing some headwinds in the portfolio based on strategic decisions we've made to exit certain products globally like Chlorypyrifos and ramp down low-margin third-party products.

In Latin America, where approximately 40% of our second-half sales are concentrated, our sales teams are leveraging our strong position in corn seed to deliver on the summer and Safrinha seasons in Brazil. This includes continued penetration of both our global seed brands, Pioneer and Brevant, and our differentiated seed traits like PowerCore Ultra.

In Crop Protection, we are focused on continuing to drive growth in fungicides with strong market demand for Vessarya. Insecticides is another a key area of success for us in the second half as we continue to drive growth in high-value products like Spinosyns and Isoclast.

In North America, given the adjustments on fourth quarter delivery expectations that Greg mentioned, we'll continue to work closely with customers as we begin collecting seed orders towards the end of the third quarter and customers begin formulating planting plans for the 2021 crop season.

We'll also work closely with channel partners to secure orders for the upcoming season and position products to capture the value we generate through our yield advantage portfolio. This includes leveraging the strength and velocity of our Enlist soybeans system through ramping up tank fills for expected strong demand for the upcoming season during the fourth quarter.

I'm confident that we have the right actions in place to address our second quarter gaps and we have a team that is determined to deliver for the year. Bottom line, all regions will execute in the second half. I will now turn it over to Rajan.

Rajan Gajaria
EVP, Business Platforms

Thank you Tim. Turning to slide 13. I will step through a few notable examples and key drivers of how we are driving our performance in 2020. Starting on the left with Seed. Our Qrome corn technology is in its first year of full launch and was a significant contributor to the pricing execution we delivered in Seed for the first half.

For the second half, we will need to maintain this momentum as Qrome is an integral part to providing the high yielding performance our customers are looking to secure. Moving to Enlist E3 soybeans. Here, continuing strong adoption is enabling sales growth. We expect Enlist E3 will contribute more than $200 million in net sales in 2020.

Importantly, this progress is further enforced by the value we expect the full system to bring. And with the recent ninth circuit decision, as Jim mentioned, we're seeing increased farmer confidence in our Enlist herbicides.

We are focused on continuing to deliver on our plan to further expand the presence of this technology in the marketplace and in our portfolio in 2021. We are working closely with our contracted growers to ensure that they’re managing production to align with continued strong demand.

Turning to Crop Protection, our portfolio of new products continues to deliver significant growth across various crops and geographies and is targeted to contribute an estimated $1 billion in sales for 2020 and expected 33% improvement over prior year.

For the second half we are expecting $150 million in incremental sales growth over prior year to deliver on our guidance. The balance, diversity and new modes of actions of the new patented active ingredients is the cornerstone of the Crop Protection strategy.

Molecules like Arylex, Rinskor, Isoclast and Zorvec are all a part of our business that is delivering a rapid ramp-up in volume. Another key differentiated active we have is our Spinosyns insecticide which is expected to contribute approximately $750 million in net sales for 2020, a double-digit improvement over prior year.

The majority of the 2020 growth is weighted to the second half in key markets, such as Latin America where we see strong demand for technology in a growing market.

For 2020 we estimate that the chewing segment of the insecticide market is growing between 3% and 5%. We continue to deliver increased volumes from our continued capacity expansion investment and are on track to increase by more than 50% by 2023.

Bottom line, these new technologies are an important growth catalyst for our Seed and Crop Protection portfolio and represent a critical part of our plan to deliver in the second half. With that I'll turn it back to Jim.

Jim Collins
Chief Executive Officer

Thank you, Rajan. To close, despite the rebound in the North America market and encouraging growth in our key technologies, 2020 has progressed as a very challenging year, given the global health crisis and associated economic downturn.

Setting currency aside, we're seeing solid fundamental performance in Seed, our new herbicide offerings and across our insecticide portfolio, which is providing momentum for the second half.

As such, I'm confident we have the necessary strategy in place to deliver on our updated 2020 guidance. Though we have neutralized the downside risk on currency we also recognize that market volatility is still a factor so we're working to accelerate more aggressive efforts on spending, increasing volumes for high demand products and securing more Enlist E3 seed volume for the 2021 season.

We know a lot can happen in a growing season and we are closely monitoring crop conditions in the US and Latin America, as well as the broader market backdrop, including further COVID-related impacts, to ensure that we are adequately adapting and adjusting our plans to deliver for the full year.

I'll now turn it back to Megan.

Megan Britt
Investor Relations Director

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

Operator, please provide the Q&A instructions.

Operator

[Operator Instructions] Our first question today, we'll hear from Joel Jackson.

Joel Jackson
BMO Capital Markets, Equity Research

Hi. Good morning, everyone. Jim, Greg, I wonder if you can help, you know, bridge the prior guide you had before it was expanded to about $2.2 billion EBITDA. You've got it down $250 million now. To be as specific and granular as possible, can you help bridge, you know, the prior guide to the current guide, all the buckets? And I guess it's too early to get into 2021, but any ideas of, you know, where you might see some drivers, headwind and tailwinds? And if you can quantify the '21 that would be helpful.

Jim Collins
Chief Executive Officer

Yes. Great. Thanks, Joel, for the questions. So, you're right. We can. It's actually pretty straightforward when you think about the previous guide of 2.2. It comes down to two main elements. There's about $400 million of currency headwind versus that guide that we gave back in January. And that is COVID-related, due to a basket of currencies everywhere in the world, Brazil being the biggest component of that, but it's a number of currencies.

The second element is just some market softening. Part of that was the 3 million acres that left us here, right at the end of the second half. That's about $60 million for our formula of $20 million for every million acres. And then some softening that we're seeing in the fourth quarter, that's also COVID related – primarily ethanol, foreign demand, commodity pricing; and that's another 40.

So you add those altogether, there's $500 million of headwind versus that previous guide. $400 currency, $100 of it is market-related. We've worked hard throughout this first half to offset about half of that $500 million. Some of that is Seed price - corn pricing. So our first half, very strong performance in North America around corn price.

Soybean pricing, a lot of predictions at the beginning of the year that we would fall short on soybean pricing and we drove very strong performance there. And some of that is rest of world volume. So if you look at our seed business in places like Europe, we're up low teens. You look at Asia Pacific, we're up high teens, and you look at Latin America, we're up high 20%s in terms of rest of the world for our seed business. So really strong rest of world performance.

And then overall Crop Protection, pricing and volume, is part of that offset. We've got some spending actions that we've taken. So overall, down 500, back about 250 on actions that we've taken. And that gets you to the midpoint of the new guide that we put out there. We believe this guide is a solid base. I've got a lot of confidence in it and so does the team. And we're all working hard from now through the end of the year to go grab as many of the upsides as we can.

I think a final point to make about the plan that we have here today, versus what we gave you in January, is pretty much everything else in that plan. Our pricing programs, our selling expense, the projects that we had in place to drive productivity, the synergies that are flowing through the COGS improvement program. You know what? All of that stuff has played out exactly according to plan.

So big news here, 400 currency, 100 of market, both of those COVID-related, and we're working hard to offset half of that today and working on that other half through the remainder of the year.

Now, on 2021, you know, it's a little early to be talking about '21. But if you just step back for a moment and think about all the things I just talked about, the momentum that we're carrying in the underlying business, the organic price volume growth that you're seeing, both in Seed and Crop Protection, we're going to have another strong Seed year next year.

You know, I think Qrome is well-positioned. Enlist, we'll see the ramp starting there. Brevant, we've got that launched and some additional work on COGS. On Crop Protection, that pipeline is still delivering. The Spinosyns capacity is starting to come into play. And we'll get additional chemistry business from Enlist that is sprayed over the top of those Enlist acres.

And we'll still have the final year on any of our synergies and additional productivity. So all of those things said, you know, I feel really good about the underlying foundation of the business and the momentum that we'd be carrying into starting '21.

Operator

Next we'll move to David Begleiter.

David Begleiter
Deutsche Bank AG, Research Division

Good morning. Jim, thank you. Just looking back at this growing season in North America, what do you think you'll do with your share of market share on both beans and corn this past season?

Jim Collins
Chief Executive Officer

Yes, David. You know, our first mission in North America this year was focused on value. We were very disciplined in driving new processes around pricing, especially in corn. And as I talked about a minute ago, in soybeans. There was a lot of predictions that it was - and it's always a competitive year, but I couldn't be prouder of the team.

And so first and foremost, we focused on value rather than specifically focusing on share. So it's a little too early right now to call market share, even though we've got kind of the macro numbers from USDA in terms of where we think planted acres came out. And obviously we've got our visibility. You know, it really matters exactly where those acres came out.

There are some parts of the country where we're stronger. And so we've really got to get this down to a county level. So we're in the process of working through that. I can say, pretty confidently, we saw some share gains in other parts of the world. Tim, do you want to talk a little bit about those areas.

Tim Glenn
EVP & Chief Commercial Officer

Yes Jim. Yes, I think we're very confident that we gained share in the past Brazil spring season that wrapped up here in the first quarter. Also, in terms of Europe, for both corn and sunflowers, both significant businesses for us. So it's just carrying on the momentum we've had in those geographies as well.

But as you say, it's too soon to call. We've got to get a little bit more granularity about where those final acres are, and ultimately, be able to get down to the details to be able to make a call on market share for the U.S.

Jim Collins
Chief Executive Officer

Great. Thanks, Tim.

Operator

Next we'll move to Jonas Oxgaard.

Jonas Oxgaard
Sanford C. Bernstein & Co., LLC, Research Division

Hi. Morning, guys. There's one thing I realized a bit earlier, but I was wondering if you could talk about your expectations for Enlist next year, and how you're looking at the 2, 4-D sales as well.

Jim Collins
Chief Executive Officer

Yes. Great. Jonas, thanks for the question. You know, for this year, for 2020, we did see very strong performance with the system. And this is, I would say really our very first full year of commercial launch. So we had originally expected that about 10% of our seed units would be Enlist. And we were happy to report - I talked to you about it earlier, that we were at 17% of our Seed volumes.

And now we believe that more than 20% of the acres in the US were Enlist acres. Tim Glenn, was just at a grower meeting here just two or three days ago, and everybody's really excited about the system and how it performed, and they're all ready to sign up for acres going into '21.

The other thing that I think gives us some positives here or some momentum is the decision that we just saw in the Ninth Circuit Court, the Enlist Duo registrations continuation. It really sends one more message to growers. It reinforces that they can count on this, that they can have confidence in the technology. So we are preparing for a significant ramp-up in the 2021 season.

We're working with as many of our production growers as we can to try to maximize the seed units that we would have available. Right now, we believe that acres can grow by about 50% moving to roughly a third of the soybean acres in the marketplace. And then inside Corteva, we think we can more than double our Enlist seed volumes for 2021 for Enlist E3.

And we're clearly going to continue to provide you more updates as we work through our production plan. So that takes us from maybe the 17% or so that we're at this year, to the low 30% for our seed units going forward. But obviously a lot of that is going to depend on our ability to go out and secure additional supplies.

On the chemistry side, we saw about two-thirds of the planted acres received a treatment of Enlist chemistry. And we'd expect that trend to continue as we see the acres expand. And we're going to be in great shape in terms of production to be able to meet that demand. If it’s a little bit higher, we'll have the chemistry and the ability to go after it. So Rajan, anything else you'd add to that?

Rajan Gajaria
EVP, Business Platforms

No. I think, Jim, you've covered it. But just overall, if you think about the Enlist system, Jonas, we'll be looking at north of $0.5 billion of sales this year. That includes the soybeans, other crops globally and other besides. And we are on track of doubling that in 2021, just based upon the adoption numbers that Jim spoke about. So it's playing out very well based upon everything we discussed and excited about the Enlist system being a bigger part of our portfolio next year.

Jim Collins
Chief Executive Officer

Thanks, Jonas.

Operator

Next we'll move on to Vincent Andrews.

Vincent Andrews
Morgan Stanley Research Division

Okay. Just want to understand the hedging comments a bit, both in terms of, I believe you said, you're implementing a new type of strategy than what you've done in the past. So if you could help us understand that. And then just more specifically, the comment on the $300 million of EBITDA ex hedges, can you help us understand how much that would be if you hadn't hedged? And is there any risk that as the hedges roll off, if the currency stays the same way, that the benefit of the hedges becomes a risk to '21?

Jim Collins
Chief Executive Officer

Yes. Great, Vincent. Maybe I'll just make a few comments here, and I'll ask Tim and Greg to say a few points. So, as we mentioned in the opening comments, you know, we have $700 million of currency-related headwinds in sales, and about $400 million in operating EBITDA. And a big chunk of that is Brazil. Some of the European currencies are a part of that as well.

So we have a few tools. The first tool in that list is our use of price. And then we've got new tools that I'll have Greg talk about that are related to hedging instruments. So what the hedges allows us to do is to manage the go-forward volatility. Pricing allows us to kind of recover that value.

Then we have some natural hedges with local production that we do in some of those markets.

So why don't we start. Tim, do you want to talk a little bit on our pricing strategies to go out ahead of currency?

Tim Glenn
EVP & Chief Commercial Officer

Yes, absolutely Jim. So pricing is clearly one of the key tools we have to help offset currency. And, you know, this year, we saw a tremendous amount of volatility, particularly, think February, March, April, and it was always moving against us. In some cases we were really limited in terms of how we could offset that currency because it was after we'd already priced and negotiated a sale with a customer. And we saw that, in both Europe and Latin America, particularly in the first half.

But as we move through the first half we look forward to the bulk of our business, particularly in Latin America that happens in the second half of the year, we were able to go out there and pull back in our pricing. And we actually did that, at least a couple of times, during the season and repriced based off of where currencies were.

And obviously, we've got to be aware of where we sit from a competitive standpoint and other options that customers have, but we were able to make a pretty significant dent in what that potential currency impact could have been in the second half through those pricing actions.

Certainly, as we look towards the latter part of this year and into 2021, we're going to work in all markets where we've had erosion due to currency, to help offset that and regain what we could not offset this year. Greg?

Greg Friedman
EVP & Chief Financial Officer

Great. Thanks. So, our first line of defense, as Jim and Tim mentioned, is pricing. The second line of defense here is financial hedging. And just let me clarify part of the question that you had. You asked about the $300 million of hedges. What we’re really saying here is there's $400 million of currency exposure, $300 million of that in the second half of the year. And that 300 is excluding the impact of pricing, not excluding the impact of hedging.

So again, to unpack this a little bit. More than 70% of our currency exposure is in the Brazilian Real. And that exposure is heavily weighted to the second half of the year. The other piece of large exposure is related to European currencies, but that business is largely completed in the first half of the year. So that is already in our first half results.

So we’re working very closely with our commercial teams who, as Tim mentioned, are out there booking business in the first half of the year for delivery in the third and the fourth quarter. You know, we've been able to put financial hedges on those transactions to ensure that we lock in the price and offset any future volatility due to movement in currency rates.

This financial hedging strategy has been able to give us some confidence and predictability in our earnings in the second half of the year. I would also mention that in the past and currently, we also do hedge our balance sheet from a net monetary assets perspective. That includes our receivables and that process and program does continue as well.

Jim Collins
Chief Executive Officer

Thanks, Greg.

Operator

Next we'll hear from Jeffrey Zekauskas.

Jeffrey Zekauskas
JP Morgan Chase & Co., Research Division

Thanks very much. Hi. Good morning. I also have a question on the currency issues. I think on slide 11, you said the EBITDA headwind would be about $300 million in the second half. And I think in your prepared remarks, you said that the sales effect in the second half would be about $500 million. So $300 on $500 million is about 60%.

And normally I would think that the EBITDA effect would be pretty close to your EBITDA margin of a little bit more than 20%. So I would have thought the currency effect would have been maybe $110 million, something like that. Why is the EBITDA effect so large relative to the sales total, if the sales total is 500?

Jim Collins
Chief Executive Officer

Yes, Greg.

Greg Friedman
EVP & Chief Financial Officer

Yes. So the largest impact is really on the sales line. And that does translate largely into potential earnings because of the pricing impact or is offset by the pricing impact. So what we see as a downside in revenue does largely translate into earnings. There's a couple of offsets there. One is where we're able to recapture some price, and the other is where we have natural hedges in place for both Seed and Crop Protection in the local area.

We don't have as much of an offset because a lot of our manufacturing of Crop Protection is in the U.S. So we're producing the product for Crop Protection in the U.S., moving it as part of our supply chain, into Brazil. So we don't have that natural hedge protection there. If you recall when we talked about our supply chain last - on the last call, we mentioned that about 65% of our Crop Protection supply chain was actually US-based.

Jim Collins
Chief Executive Officer

Great. Thanks, Greg. Thanks, Jeff.

Operator

And next we'll hear from PJ Juvekar.

P.J. Juvekar
Citigroup Inc, Research Division

Jim, I have a comment and then a question. And my comment is that, sometimes your reserves can be very confusing because you have pull forward of demand in certain regions, or pushing back of seeds and chemicals because of weather, et cetera. So it would be easier to understand your results if you aligned your quarters with the planting cycle.

And that's what the old Monsanto did when - you know, they had the same issue. And so they had March, April and May together because that is the planting season, and June, July, August together, because they're the application season. So that's just a suggestion. I'm not saying you should do that, but that would make it easier for investors to understand the company.

Jim Collins
Chief Executive Officer

Yes. Thanks, PJ, for the comment. You know, you're exactly right. The timing of the Ag market in the Northern hemisphere, the first quarter, second quarter split for the financial results is really, really difficult because, you know, the season unfolds differently every single year.

So calling that, which is why we talk a lot about our business on a first half basis, it provides a more seasonal view of the results. And then we can kind of talk about the Southern hemisphere in a seasonal basis in the second half. We have discussed a lot about adjusting our fiscal calendar to be more in line with the cropping calendar.

You know, we're working right now to get audited financials and some history behind our belt, so that when we can make that change, we can do it appropriately. We've got some financial systems, our ERP systems, that we're currently rewiring now to bring it all together.

So we want to get the ERP system locked down and ready to go. And then we're going to take a hard look at making that movement - making that adjustment. You had a question PJ?

P.J. Juvekar
Citigroup Inc, Research Division

Yes, thank you. And my question is, I mean, your seed results were down only 2% organically after being up 27% in 1Q. So clearly, you know, Enlist E3 launch is going well. As you ramp-up Enlist E3 next year, how much of that will be in the Pioneer germplasm? And then if you can just talk about how much germplasm fee on Enlist you will pay to Stine this year? Thank you.

Jim Collins
Chief Executive Officer

Great. Let me talk about CP volumes in 2Q for just a moment. You know, this quarter was, to your previous point, a little bit of an aberration. We had a very early start to the Latin America season last year. So there was a bunch of herbicides business that was in 2Q last year. We're going to get all of that in 3Q. Matter of fact, I have the orders in hand right now to deliver most of that.

The other reason that the CP results in 2Q are a little bit light is the Vessarya issue that we talked about. We've got a fantastic fungicide in Brazil. Growers - it has tremendous performance. So there is no issue with the product performing itself. Growers want to get their hands on it. It's just this formulation issue means that we need to hold it a little bit later, a little tighter, a little closer to right when the demand is needed.

So we had to pull some back and rework it and get it ready to go. It's staged, sitting in the warehouse, ready to rock when the season unfolds. But because of that rework and pulling it back, it created a little bit of depression in 2Q as well. So all of that comes back to us in the second half.

And matter of fact, on an organic basis, if I looked at the full-year CP guide, when the second half plays out like we think, we're going to be high single digits organically in sales in our Crop Protection segments. So, with respect to Enlist, Rajan, do you want to talk a little bit about that?

Rajan Gajaria
EVP, Business Platforms

Sure Jim. I think you covered it in your comments earlier, but when we think about Enlist, PJ, for the whole market, we believe that we are going to get to a third of the market next year. This year was more than 20%. So the Enlist E3 soybean market and the technology, is going to be a third of the acres next year.

Related to our own germplasm, we think that we are going to double the number we have. So let's say between 35 and 40%. Right now is when we are looking at all the production and we'll decide finally. But really, with all hands on deck trying to ramp up that technology significantly, and looking forward to seeing how that adoption goes into the market, we're very excited at this point in time with all the feedback we are getting from customers, and our team is ready.

Jim Collins
Chief Executive Officer

Thanks, PJ.

Operator

Next we'll hear from John Roberts.

John Roberts
UBS Investment Bank, Research Division

Thank you. Morning. Are you ramping down production of seed with the Xtend trait this season? Or do you need to actually produce for inventory flexibility or because of the minimum royalty arrangement that you have?

Jim Collins
Chief Executive Officer

Yes. Thanks, John. So obviously a lot of the plan for production for Xtend is out there. So the main message here is, we're going to have choices for our growers, no matter how this really plays out. And we're watching that situation closely. Thanks, John.

Operator

We'll move on to Chris Parkinson.

Christopher Parkinson
Credit Suisse AG, Research Division

Morning. Thank you. So it's clear that, you know, there were a few moving parts in the Brazil CP Q2 performance, including the difficult comp you mentioned in your prepared remarks. And then there were formulation issue in the Vessarya fungicide.

Can you speak to, you know, the performance and parsed out those issues, and just kind of break down your outlook for the second half, especially in the formulation issue? And just how you think about your portfolio's normalized growth rate in the region for the second half of '20, as well as how we should begin to think about 2021? Thank you very much.

Jim Collins
Chief Executive Officer

Yes, Chris. So really the two main issues, $80 million of Vessarya or $80 million of sales that were in the second quarter last year, that we'll now recognize in the back half of this year in 3Q. And like I said, I have those orders in hand. No concerns about that at all. And Vessarya is all of that - those sales that we had last year, we'll have again this year, we anticipate. It’s a really strong product.

So, best way to think about Latin America is just a little bit of an aberration around reporting. Going forward, strong performance with our insecticide business in Latin America in the second half as well. Isoclast is really setting up to be a real strong contributor. So as I said in one of the previous answers here, if I look at this guide and the CP business for the full year, at the end of 2020 we're going to be high single digits on that revenue line organically, ex currency. So I feel really good about where our competitive performance sits versus the market. Thanks, Chris.

Operator

And our final question today, we'll hear from Luke Washer.

Luke Washer
Bank of America Merrill Lynch, Research Division

Hi. Thanks for taking my question. Just wanted to ask about your supply chain. I know, you know, with regard to the market, COVID hasn't had a large impact, but have you re-evaluated your supply chain kind of in light of COVID and any disruption, or are you taking any action to diversify your budget?

Jim Collins
Chief Executive Officer

Yes. Luke thanks. First of all, a very large percent of our portfolio, I think the number is 80% of our Crop Protection portfolio, is dual source, at least from two sources. And a big chunk of that is out of the United States. One of those sets of sources would be out of U.S. I think the number is north of 60% of our active ingredients.

So we already have tremendous resiliency and flexibility, and key message there: you don't wake up the first day of this COVID crisis and decide to diversify your supply chain. This is something we've been working on for years and it really paid off for us. So as the crisis rolled through Asia, we sourced from Europe and the US.

As we had some things that hit the US, like the flooding in Midland, we were able to pivot and source those products from Asia Pacific. So no additional changes. We feel really good about where we stand today.

Operator

And that will conclude the question and answer session. At this time, I would like to turn the call back over to Megan Britt for any additional or closing remarks.

Megan Britt
Investor Relations Director

Thank you. Before we close the call today, I want to remind everyone of the upcoming investor webcast on August 17. During this virtual event, Jim and Greg will provide strategic updates, including portfolio updates on key product launches, specifically our planning underway to accelerate Enlist E3 soybean penetration next year. We look forward to your attendance on that call.

With that, we're going to close the call. Thank you so much for joining.

Operator

And that will conclude today's call. We thank you for your participation.