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Corteva, Inc. (CTVA)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. My name is Janine, I will be your lead operator for today's call. At this time, I would like to welcome everyone to the Corteva Agriscience 4Q 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After today's presentation, there will be an opportunity to ask questions. [Operator Instructions]

I will now turn the call over to Kim Booth, Vice President of Investor Relations. Please go ahead.

Kim Booth

Vice President-Investor Relations, Corteva, Inc.

Good morning, and welcome to Corteva's fourth quarter and full year 2024 earnings conference call. Our prepared remarks today will be led by Chuck Magro, Chief Executive Officer; and David Johnson, Executive Vice President and Chief Financial Officer. Additionally, Judd O'Connor, 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. I hope your year is off to a great start. There are several key points I'd like to share with you today, including a perspective on our Q4 results, an overview of current market fundamentals with a closer look at what that might mean for us in 2025 and how to connect all of that to our 2027 financial framework that outlines our path to sustained value creation over the next three years.

Let me start by saying that we finished 2024 almost exactly as we thought we would. The ag fundamentals have continued to improve more so than over the past two years. So, our 2025 guidance reflects that. Our portfolio of Advanced Seed and Crop Protection technologies is in high demand, and we feel good about our path to delivering the 2027 financial framework, which we announced in November.

Coupled with productivity and cost improvement initiatives, a central pillar of our business strategy, we delivered 20% operating EBITDA margins for the first time in 2024, all while maintaining operating EBITDA, which ended up being about flat year-over-year in less-than-ideal market conditions. To ensure we had good momentum coming

into 2025, it was important that we finish the year strong, which we did, particularly in Crop Protection, where we drove double digit organic sales growth and 800 basis points of margin improvement in the fourth quarter, which was largely attributable to demand for our technology in Brazil.

Our Seed business consistently delivered in 2024 with Pioneer maintaining its rank as the number one corn and soybean brand in the US. We gained corn market share in North America, coupled with solid pricing. This was quite an accomplishment given the reduction in corn planted area. Enlist E3 soybeans, the number one selling soybean technology in the US has reached 65% market penetration. Thanks to so many other companies licensing Enlist traits for their own products. The Enlist system including our herbicide offerings, reached \$1.9 billion in sales in 2024, still growing despite a well-supplied market.

On the Crop Protection side, new products and spinosyns delivered double digit volume gains in 2024. And on biologicals, mid-single digit volume increases in 2024 are expected to continue to strengthen in 2025 due to ongoing demand recovery and continued penetration across all regions. Between strong demand for our innovative seed technology, cost and working capital discipline, as well as healthier farmer income levels in North America, our operating free cash flow in 2024 improved by almost \$500 million, coming in at about \$1.7 billion. We also returned approximately \$1.5 billion to shareholders via dividends and share repurchases for the full year. We are committing to another \$1 billion in share repurchases in 2025.

So, in summary, 2024 was a year of progress in less than ideal conditions. Seed continues to deliver great growth as we transition to a net technology seller. And although the crop protection industry had another down year, the strength of our portfolio in our fourth quarter performance in Brazil gives us confidence that things are moving in the right direction.

Now, let's take a step back to discuss the current macro environment before diving into the specifics for Corteva in 2025. As I mentioned, overall ag fundamentals remain constructive, as evidenced by record global consumption of both corn and soybeans. Large global crops enjoyed record demand for grains, oilseeds and biofuels in 2024, and the demand outlook into 2025 indicates that growth will continue for livestock feed, biofuel and food consumption. Strong production has helped farm sector income.

We had record corn yields in the US and expect to see the same in Brazil, which allows farmer margins in both of those key markets to improve meaningfully. While grain prices are on the rebound and US farmers posted back to back record corn yields the past two years, more notable is the fact that the corn market is tight. Measured by global stocks to use ratios, it's the tightest they've been globally in over a decade. And if you exclude China, it's the tightest we've seen in three decades. And with on-farm demand remaining strong overall, we're seeing signs of stabilization in the crop protection industry. For example, pricing for products coming out of China has been stable over the past few months and channel inventory levels around the world are more in balance.

For Corteva, improvement has come in the shape of three consecutive quarters of volume gains. This all gives us confidence in our 2025 assumption of a flattish market with low single digit volume gains offset by low single digit pricing headwinds.

With regard to 2025, although our operational plan remains intact, today, we are refining our preliminary 2025 view to reflect additional currency headwinds, namely the Brazilian real and to a lesser extent, the Canadian dollar. The strong US dollar will impact the agricultural economy throughout 2025 and due to the crops in geographies in which we participate will impact our US dollar reported results. However, we are still expecting another year of top and bottom line growth and meaningful margin expansion, with continued laser focus on controllables, including the initial tranche of seed

cost deflation.

You might recall that in our third quarter earnings call, we pointed to \$550 million in gross cost and sales improvements in 2025. And that assumption remains, benefits from our self-help actions, including an additional \$50 million related to royalty improvement, gives us the ability to continue to invest in R&D and future innovation. Our plan reflects about 10% EBITDA growth and about 100 basis points of margin improvement. We foresee another year of strong cash flow generation and plan to execute \$1 billion in share repurchases over the course of 2025.

Now, let's spend a few minutes on key themes and market assumptions for this year. To set the stage, think about strong demand for crops, improving farmer margins, good on-farm demand for Seed and Crop Protection and more corn area in the US. The farmer is responding to positive relative economics and 2025 is setting up to be the year of corn in the ag markets.

We expect our Seed business to have another strong year as farmers continue to look to effective technology to boost yields while offsetting the effects of volatile weather and increasing pest pressures. It should also be a standout year for seed margin improvement driven by mix uplift, royalty income improvements and cost of sales benefits, including productivity and deflation.

We plan to launch another 300 new seed hybrids and varieties. Our seed pipeline is the best in the industry. The incremental yields from the advanced technologies in our portfolio allow us to continue our longstanding price for value strategy. Our strategy of selling technology is visible and the opportunity set there is significant.

The big question is what assumptions did we make for Crop Protection. Well, the short answer is that the midpoint of our range assumes a flattish CP market. We have seen volume trending in the right direction. It comes down to when the pricing environment will stabilize. Given what we know today, this seems to be the most reasonable assumption for the time being, and we'll continue to update the market as conditions evolve.

For our Crop Protection business, we're expecting mid-single digit organic sales growth overall, led by new products and spinosyns as well as biological's double-digit growth. If you recall, we're targeting \$1 billion in biological's revenue by the end of the decade. Geographically, Brazil will remain a key growth market for us in 2025 for both businesses. On top of our existing strong corn market share, it will be another important year for us to continue to make inroads with Conkesta on the soybean side. And for Crop Protection, we have a robust plan for more biologicals' expansion and strengthening our commercial presence.

Before I turn the call over to David, let me remind you about the announcements we made at our November Investor Day, where we introduced a new straightforward framework to create value through 2027. Recall, we're targeting \$1 billion in incremental net revenues over the 2025 to 2027 period from three growth platforms, increased out-licensing income, continued ramp-up of CP new products and biologicals' growth. We're making investments in other growth areas, but these are the three that will provide the most significant incremental value capture in the mid-term.

Second, we laid out Phase 2 of our controlling the controllables program that entails \$1 billion in gross productivity, cost and deflation benefits across Seed and Crop Protection as well as managing SG&A. Next, as part of our ongoing commitment to commercial execution, we're targeting about 100 basis points of EBITDA margin growth per year. That works out to be over 900 basis points of improvement versus where we began in 2019. So, if you play all this forward to 2027, we're expecting EBITDA growth of \$1 billion over three years, which

is a 9% CAGR with EBITDA margins of 23% to 24% at the midpoint. We are energized by this plan and our first task is to execute a strong 2025.

With that, I'd like to turn the call over to David.

David P. Johnson

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

Thanks, Chuck, and welcome, everyone to the call. Let's start on slide 7, which provides the financial results for the fourth quarter and full year. Briefly, touching on the fourth quarter, organic sales were up 13% compared to prior year, with Seed up 16% and Crop Protection up 11%.

Pricing for the quarter was down 4%, as expected, largely driven by competitive pressure in Brazil in both Seed and Crop Protection. Pricing was positive in every region, excluding Latin America. Fourth quarter volume was up 17% over prior year. Seed volumes were up 19%, driven by an expected increase in Brazil Safrinha corn area. Crop Protection volumes were up 16%, led by Latin America and EMEA. Volume of Crop Protection new products were up more than 20% in the quarter compared to prior year.

Full year 2024 organic sales were up 1% versus prior year, with higher volume partially offset by lower price. Seed organic sales were up 4% for the year, with pricing up 3% with gains across the portfolio. Volume was up 1% with planted area increases in Brazil corn and North America soybean, offsetting lower corn planted area in North America, EMEA and Asia-Pacific.

Crop Protection organic sales were down 2% versus prior year, with volume gains offset by price decline. Full year price was down 5%, largely driven by competitive market dynamics in Latin America. Crop Protection volume was up 3%, but gains in Latin America and Asia-Pacific partially offset by declines in EMEA, driven by residual destocking and unfavorable weather in North America, driven by just-in-time purchasing behavior. Operating EBITDA of approximately \$3.4 billion for the full year of 2024 is essentially flat versus prior year, with an operating EBITDA margin of 20%, up more than 30 basis points higher.

Moving on to slide 8, for a summary of the full year operating EBITDA performance. Seed price gains were offset by lower prices in Crop Protection, while volume was higher in both Seed and Crop Protection, led by Latin America on higher expected planted area and demand for new products. Transitioning the costs, we delivered nearly \$500 million in self-help benefits with \$155 million in lower net royalty expense and \$220 million benefit from raw material deflation and productivity actions. These gross cost benefits more than offset cost headwinds from higher seed commodity and other costs.

SG&A costs were modestly higher as expected, given the full-year ownership of the biological acquisitions and normalized bad debt levels. R&D expense was in line with expectations and just over 8% of sales for the full year. Together, this translates to 20% operating EBITDA margin, which is impressive given the market dynamics.

With that, let's go to slide 9 and transition to the guidance for 2025 and the key metrics which we are tracking. We provided an early view of 2025 back in November, but based on 2024 results and the stronger US dollar, we're updating the guidance ranges. 2025 operating EBITDA is expected to be in the range of \$3.6 billion and \$3.8 billion or approximately 10% improvement over prior year at the midpoint. Meaningful margin expansion is expected to be driven by price and product mix, together with benefits from improved net royalty expense, cost deflation and productivity actions.

Operating EPS is expected to be in the range of \$2.70 to \$2.95 per share, an increase of 10% at the midpoint, which reflects higher earnings growth and lower average share count, partially offset by higher net interest expense. Free cash flow to EBITDA conversion rate is expected to be in the range of 40% and 45%, which is in line with the 2023 and 2024 average. The change from 2024 is driven by higher earnings, offset by normalized use of working capital.

Turning to slide 10, you can see operating EBITDA bridge for 2025 growing from approximately \$3.4 billion in 2024 to \$3.7 billion at the midpoint for 2025. Total company pricing is expected to be flat to up low single digits, with pricing gains in Seed partially offset by declines in Crop Protection. Our Crop Protection prices are beginning to stabilize. We still expect prices to be down low single digits over the year in 2025. We're expecting volume growth in both Seed and Crop Protection. Seed volume gains are expected to be driven by more corn acres in North America and share gains in key markets.

Crop Protection volume is expected to be up mid-single digits, driven by demand for new products and biologicals, which are expected to outperform the rest of the portfolio. We expect approximately \$50 million improvement in net royalty expense driven by increased out licensing income as we continue to ramp up the licensing of Conkesta E3 soybeans and PowerCore Enlist corn. We are on track to deliver approximately \$400 billion of net cost improvements in 2025, driven by lower Seed commodity costs, Crop Protection raw material deflation and productivity gains, including benefits from Crop Protection footprint optimization.

SG&A and R&D as a percentage of sales are expected to be relatively flat, with 2024 levels implying a modest increase in spend. Like many USD reporting companies, we are expecting a large currency headwind now than we previously forecasted. The currency headwind is largely driven by the Brazilian real, Turkish lira and Canadian dollar. The stronger US dollar is expected to translate to a low single digit headwind on net sales, and approximately \$275 million headwind on operating EBITDA. Together, this translates to approximately 10% operating EBITDA growth at the midpoint and 100 basis points to 150 basis points of margin expansion.

Regarding the timing of sales and earnings in 2025, we're expecting about 60% of sales and roughly 80% of EBITDA to be delivered in the first half of the year. We also expect to see a timing difference between the first two quarters versus prior year. This is largely due to timing of seed deliveries in Latin America, EMEA after both regions delivered record volume in fourth quarter 2024. For the first quarter 2025, we're assuming a normal delivery pattern in Northern Hemisphere, which could shift significantly between first and second quarter, depending on weather conditions.

Let's go to slide 11, which presents the factors which could drive the guidance to the lower and upper end of the range. As seen on the previous slide, the current forecast includes a significant currency headwind to operating EBITDA. We will continue to look for opportunities to mitigate additional volatility through pricing and other means. As the dollar continues to strengthen, we expect there would be some additional headwind. Assumed in the midpoint is relatively flat global planted area with increased corn area and North America, low single digit increase in Brazil Safrinha and relatively flat area in other regions.

A big question is how much growth we'll see in Crop Protection given the current market dynamics. On-farm demand remains relatively stable. We're expecting the traditional crop protection market to be essentially flat in 2025. Corteva's new products and biologicals are expected to drive much of the volume growth, while prices across the portfolio are expected to remain under pressure, although at a lower level than prior year. We expect to deliver meaningful cost improvements in Seed and Crop Protection from input cost deflation and productivity actions. And that our midpoint assumption includes SG&A and R&D as a percentage of sales to be relatively consistent with 2024 levels.

We're not considering any impacts from trade policy in the midpoint of guidance. Without details on scope, duration or affected industries, it's too premature to provide details about the potential impacts. This situation is very fluid and changes daily, so we will continually evaluate the impact as specifics become known. Together, these are a balanced set of assumptions which gives us confidence in our ability to grow sales and operating EBITDA in 2025.

With that, let's go to slide 12 and summarize the key takeaways. First, Q4, operating EBITDA while in line with expectations was a record performance for the company. Crop Protection fourth quarter results, including double digit volume growth and significant operating EBITDA margin expansion is a positive sign our portfolio strategy is working and the industry is starting to stabilize. The strength of our Seed portfolio drove full year sales and EBITDA growth for the business through price and mix improvement, market share gains and a meaningful improvement in net royalty expense.

And driven by working capital, we delivered \$1.7 billion in free cash flow, a 50% conversion rate on EBITDA. Balance sheet flexibility and ability to generate cash supports our track record of returning cash to shareholders, including \$1.5 billion in 2024.

Finally, the 2025 guidance that we shared today reflects sales, earnings and margin growth, much of which is in our control and supports the three-year framework we presented in November.

With that, let me turn it back to Kim.

Kim Booth

Vice President-Investor Relations, Corteva, Inc.

Thanks, David. 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. Ladies and gentlemen, we will now begin the question-and-answer session. I would like to remind everyone to limit yourselves to one question only. [Operator Instructions] Our first question comes from the line of Christopher Parkinson from Wolfe Research. Please go ahead.

Chris Parkinson

Analyst, Wolfe Research LLC

Q

Great. Thank you so much. A lot's changed since November outside of that, specifically in your Seed business. We're looking at corn acres likely being up versus probably flattish back then. It seems like you have an opportunity, a further opportunity, quite frankly, on [indiscernible] (00:33:49) 2,4-D debacle. PowerCore seems to be doing well. Pricing, I mean, we could keep going, but just how should we think about these potential positives as they're evolving into the season versus what you've been highlighting as a risk on the FX side, as we just try to triangulate the midpoint of your guidance and how you see things evolving. Thank you so much.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Good morning, Chris. Well, how will we do this? We'll talk about our assumptions for guide. I'll give you some views on the market. And then David can walk you through the upsides and downsides, at least how we're thinking about them today. So, you're right, from a fundamentals perspective, the market has turned more positive, certainly in the last three months. We've always, in the last couple of years, we've seen very good demand for crops. 2024 was another record. We're expecting very good demand in 2025.

I think crop prices are following that trend. You can see it especially in corn and soybeans where they're off their bottoms and showing, I'd say, some modest strength. And the stocks to use ratios, especially for corn, is the tightest we've seen in some time. That's why we're calling, I think this year, the year of corn because we just think that the market is calling for more planted area when it comes to corn. Farmer margins are improving. They're not great by any stretch, but they are much better than they were last year. And that comment is for US farmers and for Brazilian farmers.

And then just one other comment, you been through the CP industry, it's a different, it's a different state what we're in right now, the last couple of years have been very challenging and I'd say disproportionately imbalanced when it comes to inventories in the channel. And things are feeling a lot better in that regard where we have more balanced inventories around the world. There's still pockets, we're still expecting downward pressure in price, especially in the first half of the year. But the CP industry is continuing its recovery. So, all of that was factored into sort of our midpoint and how we're thinking about guide. And David, maybe you can now talk a little bit about the upsides and downsides.

David P. Johnson

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

A

Yeah, Chris. So, thank you very much for the question. I think we outlined them pretty decently on slide 11, as we feel we have a balanced outlook for currency at this point in time. However, if there is a situation we had the weaker US dollar, then we would see some upside.

I think for us, probably one of the big pluses and minuses is just the CP industry in general, which we talked about. We expect some low single digit negative pricing in the CP business this year in 2025, which is a pretty significant improvement over what we saw in 2024. So, that to me is one of the key look-outs for this year. We also have a net \$400 million of improvement due to self-help actions, that takes execution and so on and so forth with the teams. We feel, again, that's balanced. So, I think when you look at the total 10% midpoint EBITDA growth, we feel like at this point it's a balance of assumptions.

Operator: Thank you. Our next question comes from the line of Vincent Andrews from Morgan Stanley. Please go ahead.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Hi, everyone. When I look at 4Q, what stands out to me is it looks like the production costs in crop chem or Crop Protection came in a lot lower than – and certainly, we were expecting – and I'm wondering if there's a lot lower than what you guided because you don't really guide by segment. But at the same time, it looks like the Seed production costs were reported a lot higher than what we were expecting. And so, I'm just wondering if you can speak to sort of where you are in CP from a lower raw material cost perspective? And if you are indeed run rating better than you thought three, five months ago, and if there any implications to 2025 from that?

And likewise, I assume in Seed, we know you were working through some higher cost inventory. And so, that's just temporal and ultimately will run its course. But I just would like to get some commentary around where you are exiting 2024 on the costs side of the equation.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Okay. Good morning, Vincent. So, let me give you some opening comments and then I will turn it over to both Robert and Judd to talk of specifics. So, you're right, when it comes to CP, as you probably remember we've got a multi-year plan where we're really looking at structural improvements, asset footprint, really doing things differently when it comes to CP, driving significant productivity gains.

Recall that as a publicly traded company back in 2019, we inherited our footprint. And we've been on a very long journey here to optimize and take structural costs out. And Robert King and his team have done a really good job. And I'd say we are trending a little ahead of plan there. And he can give you some specifics.

The other side of this is Seed and we had telegraphed this before a couple of times that we had some very high-cost inventory in Latin America, really because of lower yields and quality issues back in 2023. And we made a deliberate, what I'd say, set of decisions to clear the decks for 2025. And we've done that and that obviously shows up in our 2024 result. But to give you just a bit more color, Robert, why don't you start with where you're at in the cost reduction program and then we'll pitch it over to Judd?

Robert King

Executive Vice President-Crop Protection Business Unit, Corteva, Inc.

A

Good. Thanks, Chuck. Vincent, we finished out, the year to answer your question about where we expected to be on our journey to our 2027 commitments. Looking at the cost takeout and the footprint reductions we talked about everything is on track. For the full year for 2025, we're going to take out another \$200 million. And if you recall at Investor Day in November, we committed to a \$300 million run rate by 2027, at least. And so, we are marching towards that.

When we think about raw material deflation and it came in for the year, right, about \$100 million, which is what we had expected. And we said last time, we talked and that will continue into the next year. We have good line of sight that, that is all baked into what we have guided towards. And so, we think it continues to move forward, getting, continuing to get better. Things will slow at a lower rate than what we've seen in the past. But everything's moving in the direction of goodness from a cost management standpoint there.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Judd? [indiscernible] (00:40:59)

A

Judd O'Connor

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

Yeah. Vincent, thank you. And I think Chuck wrapped it up pretty well. If you look across the world, we had price gains in every region with the exception of Latin America in the fourth quarter. Latin America, we had extremely competitive markets and that continued in the fourth quarter. We also had some remaining high-cost inventory that we had to work through. I think we've talked about that in a number of cases in the past.

For 2025, the good news is both get better. We've got a COGS position and Brazil in particular that's going to materially improve and we see pricing opportunity as we go into 2025. So, feels like we've worked through what was a challenging 2024 and we've got a good path in 2025 in the plan.

A

Operator: Our next question comes from the line of Joel Jackson from BMO Capital Markets. Please go ahead.

Joel Jackson

Analyst, BMO Capital Markets Corp. (Canada)

Good morning, everyone. Could you talk about the cadence of the earnings and earnings growth across the year, [indiscernible] (00:42:13) 10% across the year? Can you help us figure out how that's going to look Q1 or quarterly or first half, second half? Thanks.

Q

David P. Johnson

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

Yes, Joel. This is David. I'll take that one. I think we'll look at more first half, second half, because as you know, and given weather and what have you, we could have a pretty significant change between March and April. So, when we look at it right now, we would expect to be up slightly in the first half versus the first half of 2024 and a little bit better, I would say, year-over-year comparison, the back half of the year. And some of that's driven by exactly what Judd just said regarding the Brazil seed cost position and so on and so forth. So, we would expect to see a pretty, I would say a better improvement there in the fourth quarter for Seed.

A

In CP, as you know, we talked about low single digit pricing. We would say that, that would be a little bit low single digit negative pricing, I should say. That's a little bit more towards the first half of the year, flattening out in the back half of the year. So yeah, that altogether, first half would be up slightly and then we would see the second half being higher as a percentage of improvement year-over-year.

Operator: Our next question comes from the line of Kevin McCarthy from Vertical Research. Please go ahead.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Yes, thank you and good morning. Your Crop Protection EBITDA margins increased 800 basis points year-over-year, which was quite a bit more than we would have anticipated. So, can you maybe rank order some of the key drivers of that? I think you made a comment that you were pleased with technology uptake in Brazil. So, just maybe a little more context around what drove margins. And also, I'm curious as to whether there were any positive or negative timing related considerations in either of your segments. Thank you.

Robert King

Executive Vice President-Crop Protection Business Unit, Corteva, Inc.

A

Yeah, thanks, Kevin, this is Robert. I'll jump into that one. So, Q4 was a, was a really strong quarter for us and for the overall Crop Protection business, it was – is a record quarter as you called out. In Brazil, they had a really good quarter, especially when you compare it to the previous year and year-over-year comp. And that is part of the large numbers you're seeing. But not to minimize the effort that the team's put in there.

The drivers came from the usual suspects that we've talked about, biologicals, new products in those areas. And some spinosyn sales as well. So, it fell just in line with our key drivers to growth. And that's really what drove a lot of the margin increase on a year-over-year basis as compared to the prior year.

The additional, I would say is fungicides, insecticides experienced some solid growth in Q4. And that's an area that typically has higher margins as compared to herbicides as well. So, our mix helped out there also.

And then finally, I'll land on cost. Earlier in the call we mentioned on that, but in Q4, we took a \$170 million of cost out on a year-over-year basis. So, that is moving in the right direction as well. So, all of these things came together to deliver a really solid quarter and give us some momentum moving into 2025. Hope that helps.

Operator: Our next question comes from the line of Josh Spector from UBS. Please go ahead.

Joshua Spector

Analyst, UBS Securities LLC

Q

Yeah, hi. Good morning. I want to come back to the question around 2025 guidance. So, when you go through all the puts and takes you left out or at least your bridge, FX is really the only major change in there. But you didn't lower the high and low-end by \$100 million. You lowered the top-end by \$200 million, you didn't touch the bottom end. So, kind of two pieces here is, one, why is the top-end cut \$200 million and not a \$100 million? And then at the lower-end, are you baking in some of the positives that we talked about around corn specifically that helps offset some of that? Thanks.

David P. Johnson

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

A

Right. This is David again. I'll take that, that question. Typically, one of the reasons we took the \$200 million off the top is we do narrow our guide. Because this will be our official guide, where our information we gave out last year was more of our initial perspective of the year, which was a wider guide than we typically give. And then, at the midpoint then we did take out \$100 million. As you mentioned, it is all FX. Actually, FX is \$125 million. And we made up \$25 million there. And a little bit of the base change between the [ph] \$3,376 (00:47:15) and the \$3.4 billion in other areas. So, slightly improvement in price and slight improvement in volume. And so, that's where we ended up on the midpoint. On the lower end, we cut the lower end. I mean, I think as we put in our upsides and

downsides, really the downsides would be a further strengthening of the US dollar, difference in planted acres. And then, our perspective on the CP market as to what that might roll out over time in 2025, particularly around pricing and volume.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

And Josh, maybe just a couple other thoughts for you. So, when we rolled out that wider range, it was a first look. It was a while ago. But you recall, I think we had message that we would need to see the CP market return to growth. And what we're calling for right now, three months later is a flattish CP market. So, that was certainly a consideration.

If we start to see the market rebound in CP, then we would obviously reflect that going forward. And then the other interesting thing for me, when I just look at it, the currency, the big number, \$275 million, if you add that to the \$3.7 million the way we guided it, you're into a healthy range there. That is not too dissimilar to the numbers we were providing just a while back. So, I think that it's really almost binary where we lowered the midpoint simply because of currency and we're feeling that. But the top end of that range, we would need to see the global crop protection market return to growth.

Operator: Our next question comes from the line of David Begleiter from Deutsche Bank. Please go ahead.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Good morning. Chuck, if you look at equity values, there's a widening gap between Seed and Crop Protection assets. You're now almost 70% Seeds. Could ever make sense for you guys to separate out Crop Protection from Seeds to enhance the equity value? Thank you.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. Good morning, David. Look, it's – we look at almost everything under the sun when it comes to how do we create long-term value creation. I think it's off the table. We're constantly looking at our portfolio. We're constantly looking externally at how to use the balance sheet and the cash flow we're generating. And so, I wouldn't take anything off the table.

However, if you think about how the company is built, right, we're built around a farmer, a global farmer, and they need an integrated set of tools, especially when you look at how our R&D is completely integrated and working together and then how we go to market around the world, all of those, there's significant, I'd say, synergies and leverage we get. We're one of the only companies, if you think about how Corteva is built, that can bring a full acre solution, starting with Seed and then a Crop Protection and biological package now around that.

And I think you're starting to see the value of that integrated offering in markets where we're working with farmers directly now. So, as a CEO, I would never take anything off the table. But when I look at the journey that we're on, I have a lot of confidence that the long-term value creation that we've laid through all the way from R&D to how we've built our channels to market and the technology we're bringing farmers, an integrated offering is going to be a powerful set of choices, I think for farmers.

Operator: Our next question comes from the line of Steve Byrne from Bank of America. Please go ahead.

Salvator Tiano

Analyst, BofA Securities, Inc.

Q

Yes, good morning. This is Salvator Tiano filling in for Steve. I want to go back to the guidance and [ph] we think (00:51:25) the set of assumptions, we don't really see anything about the outlook for dicamba and what upside you could have [indiscernible] (00:51:30) Enlist. And you know we are already in February fieldwork in the South should start in a month or so. So, what is your latest view given there haven't been any registrations so far to the supply chain should have stocked at least for their early herbicides? And is this something that is in your guidance or could be something that could be upside?

Judd O'Connor

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

A

Hi, Steve (sic) [Salvator] (00:51:59). This is Judd. And relative to dicamba, I think, one, from a label perspective and trying to speculate any at all, I think it's too early to call. If you look at where we're at today, we don't have any new information. But our order book for E3 is very, very healthy. We have seen orders come in from the South, which is kind of a long-term dicamba hold out with the soy-cotton rotation there. Growers have held on to technology longer there than they have in other parts of the market.

Our E3 products are performing extremely well, both from a weed control perspective, our Z-Series, soybeans and the germplasm that we're sending through licensees as well as through our own brands, is leading in the market, so that feels good. But we don't have any upside built into the plan for any assumptions around dicamba. We've got 65%, as Chuck mentioned earlier, market penetration at this point with no upsides for dicamba built into the 2025 plan.

Operator: Our next question comes from the line of Patrick Cunningham from Citi. Please go ahead.

Rachel Lee

Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning. This is Rachel Lee on for Patrick. You've noted just-in-time purchasing behaviors in the past several quarters. So is this the new norm? And do you expect to shift strategy based on this new customer behavior? Thank you.

Robert King

Executive Vice President-Crop Protection Business Unit, Corteva, Inc.

A

Yeah. It's Robert. Thanks for the question. Yeah, this is a really an aspect of what's going on in the global economy with capital markets, with high interest rates, holding, working capital, et cetera, through the channel and on the farm is something that is just not favorable for folks to do. So, as long as interest rates are where they are and the product availability is high across the board, we don't anticipate that the just-in-time behavior changes. It's a behavioral shift due to the economy and the way things are. So, we're prepared for it as we move forward.

Operator: Our next question comes from the line of Edlain Rodriguez from Mizuho. Please go ahead.

Edlain Rodriguez

Analyst, Mizuho Securities USA LLC

Q

Good morning. Thank you, everyone. So, in the fourth quarter, you talked about like competitive pressure in Seed that you see in Latin America. Like do you expect this to continue going forward? And what's really driving that? So, why is like Seed being so competitive and you're seeing price decline as a result of that?

Judd O'Connor

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

A

So, Edlain, thank you for the, the question. And maybe a couple things. One, as we went into the fourth quarter in Seed, we had a healthy supply position from competitors in the marketplace. We see that settling out to some degree, particularly with Safrinha acres increasing. And then, as we go into the second half, which is the most important time of the year for us with our Seed business in Latin America. And, excuse me, second part of that question was...

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Will it continue?

Judd O'Connor

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

A

Will it continue? So, as we go into 2025, as I mentioned earlier, one, good news, our COGS position gets materially stronger and we're excited about that. Number two, we have pricing built into our plan. We've taken that pricing forward and feel good about where we are with the opportunity to price in Brazil in 2025, new products, better technology, bringing more value for growers and we expect to be able to price for that.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Yeah, Edlain maybe just a few other thoughts here. So, Brazil's always been competitive. There's no change here, right. It's a big, diverse market, as we've already talked about. But Brazilian farmers through many, many years have also showed that they will pay for differentiation in yield. And we have some of the best technology when it comes to Seed in Latin America. In many markets, we are the leader and farmers will pay if they're going to get a few extra bushels per acre.

I think the issue that you're seeing reflected in price in our financials was the poor yields in the quality back in 2023. And our deliberate decision to make sure that we clear the decks so that we've got a much healthier business going into the 2025 year. And now you look at is what Judd has referred to is we're expecting a pretty significant increase in Safrinha acres. So, the market is fundamentally, hasn't changed when it comes to seed and how it values seed and it's growing. And now that we've got a better inventory cost position, I think we like where we're sitting here early in 2025.

Operator: Our next question comes from the line of Frank Mitsch from Fermium Research. Please go ahead.

Frank J. Mitsch

Analyst, Fermium Research LLC

Q

Hi. Good morning, and thank you. David, a question on working capital, obviously, a very strong part in 2024. I was curious, on the inventory side, typically you see a build for Corteva 4Q versus 3Q that didn't happen this year, actually went the other way. So, could you talk about that? And can you talk about the expectations in 2025? I know that you say that you expect it to normalize, any sort of metrics around that? Thank you.

David P. Johnson

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

A

Yeah, sure. No problem. When you look at our total free cash flow this year of the \$1.7 billion and if you look at what I would consider core working capital, so receivables, inventory and payables. Now, that was a tailwind of about \$300 million. A lot of that was inventory. And a lot of that inventory was because of the fact that the year before we kind of entered the year with more inventory than we wanted to primarily in CP.

I think the Q4 dynamics would probably be the fact that we had this Seed inventory that we wanted to clear the decks like Chuck had mentioned. And the fact that our volumes were up quite a bit in Q4. So, there's a little bit of a dynamic there. When you look into 2025, we do expect those kind of core working capital elements would be a slight headwind, I would say, somewhere in the \$100 million range, but I would say that would be back to more normal levels.

Operator: Our next question comes from the line of Aleksey Yefremov from KeyBanc. Please go ahead.

Ryan Weis

Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks, and good morning. This is Ryan, on for Aleksey. I mean, I understand you guys didn't bake in anything to the guidance just based on kind of what's been going on with tariffs. But I wanted to get a better understanding of raw material sourcing. And what percentage of raw materials would be at risk kind of to the potential tariffs in Canada and Mexico, and then obviously the recent addition of China? Thank you.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. Good morning, Ryan. So, this is a complicated question. I'll tell you that right upfront. The situation is changing almost daily. And so, we have a, I'd say, a task team that's working and running models and simulations on what could happen with the different scenarios. Let me start by just saying a couple of things upfront. So, our two, this is really a CP issue for us, right, because it's a global supply chain. Corn is a little different. It's essentially grown and sold in the same region. So, this for us is a CP issue and our two biggest franchise businesses, Enlist and spinosyns, they are manufactured exclusively in the United States. So, that sets up Corteva to be basically a net exporter as a company.

Now, to give you a view on CP and we'll just use China as an example, it's about 2% of our COGS, come from China and about 80% of that 2%, we have multi-sourced. So, the simulation, the models that we've run and who knows exactly what will eventually happen, but the scenarios that we run, we think that most of these situations are very manageable. But you are right to call out, we have put none of this in our guide because we just, we just don't have enough confidence on what it may or may not be.

So, the scenarios that are being discussed right now, we think are completely manageable. And the data point I would draw you to for China is it's about 2% of our COGS and 80% of that is multi-sourced.

Operator: Our next question comes from the line of Richard Garchitorena from Wells Fargo.

Richard Garchitorena

Analyst, Wells Fargo Securities LLC

Q

All right. Thank you. Chuck, you talked about a very encouraging start to the year for ag fundamentals. Just looking at Crop Protection in North America, it looks like volumes and price were flat in the fourth quarter. So, I was wondering, can you just give us some color in terms of how you think North America is shaping up for Crop Protection? We've heard from some of your peers that there might be some cautious buyer patterns from retailers and growers. So just wanted to hear your thoughts on that. Thank you.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Yeah, it's probably best that Robert comments on that since he's in the market every day. But the backdrop, I think right now is you've got, as we said, we think there's going to be a lot of corn acres planted, the year of corn, which helps Corteva on many fronts. We do think that farmer margins are improving, crop prices are up, inventories are tight. So, all this usually drives to sort of an overall positive sentiment. Now, it's early and we have to get through a couple more weeks of winter. We also need a wide open planting season, hopefully, but so far so good. And then when it comes to specifics in terms of CP inventory and what the retailers are thinking about for the season, Robert, why don't you comment on that?

Robert King

Executive Vice President-Crop Protection Business Unit, Corteva, Inc.

A

Yeah, just to add a little bit color to it. Specifically North America, you know it's our largest crop protection market, obviously. And things continue to improve there around [indiscernible] (01:02:50) and everything's going on with the commodity prices. So, channel inventories are in balance. We had a good fourth quarter, not unusually high nor low. Products continue to move in preparation for the North America season. And we're continuing to see that as we move into first quarter here. We're expecting that our products continue to move. In looking at all of our channel partners, et cetera, we sat in a really good, really good place on a year-over-year basis. And we're expecting that our new products continue to see growth there.

Biologicals is something that is moving into the market and our new partnerships that we've got set up there, we're really excited about. So, everything is in the direction of goodness, especially when it comes to inventories in the channel and demand for the technology that we're bringing to market.

Operator: Next question will be from Kristen Owen from Oppenheimer. Please go ahead.

Kristen Owen

Analyst, Oppenheimer & Co., Inc.

Q

Hi. Good morning. Thank you for taking the question. Just given the FX swing factor on the year, can you just remind us hedging practices, how far out you hedge on certain currencies? I mean how that might move through the year? Thank you.

David P. Johnson

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

A

Yes, Kristen, this is David. I'll take that question. Typically, what we do is we hedge our currencies in the year for the year. So, we might have a little bit hedges in place going into the year. But our primary objective is to have some consistency between the quarters within a year. So really, when you look at a year-over-year basis, sometimes that's a benefit and sometimes it's not. So, in this particular case, BRL for us is probably our largest exposure. Somewhere around 40% of our total impact in 2025 is BRL.

Currently, we have that in at a [ph] 6% (01:04:36) or so rate. I will remind everyone that our exposures are more back half loaded into the year, so we'll see where that rate ends up that point in time. Right now, the futures are a little bit above that rate, so we'll see how it goes. But again, I just want to remind everyone that it is really within the year for the year.

Operator: Our next question comes from the line of Arun Viswanathan from RBC Capital Markets.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question. I guess, like just a clarification on that last point. So, the exchange gains and losses line, the EGL line legacy kind of DuPont line. But just, just curious if that would be kind of similar to what you saw in 2024, maybe more so in the [ph] 300 to 350 (01:05:28) range. And then along those lines, is there, I guess, would that impact your cash? I mean, is there any room to maybe increase the buyback or just kind of planning for that billion ratably through the year? Thanks.

David Begleiter

Analyst, Deutsche Bank Securities, Inc.

A

Okay, fantastic. There's two questions in there. I would say that on the EGL, I would say, it'd be proportionate to probably our EBITDA number if you look at that over time. So, you would expect it to be a little bit higher in 2025 versus 2024. Regarding our capital deployment, as we sit today, we do plan on the \$100 billion or the \$1 billion of buybacks somewhat even through the year, which would be similar to what we did in the prior year. So, if we add that along with our dividends, it'll be another year of \$1.5 billion back to shareholders on a roughly \$1.6 billion of free cash flow. The difference being we will plan on continuing to invest in our Catalyst program and then the opportunities in M&A. And then we also ended the year a little bit higher in cash than we typically do at [ph] \$3.1 billion (01:06:34). So, we have a little bit more room there for any kind of tuck-in acquisitions.

Operator: Our last question comes from the line of Ben from Barclays. Please go ahead.

Benjamin M. Theurer

Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Yeah, good morning. All questions have been asked. Thank you.

Kim Booth

Vice President-Investor Relations, Corteva, Inc.

Okay, great.

Operator: That concludes...

Kim Booth

Vice President-Investor Relations, Corteva, Inc.

So, that will conclude our call today. We thank you for joining and for your interest in Corteva. And we hope you have a safe and wonderful day.

Operator: That concludes our conference call. Thank you for joining today. You may now disconnect.

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