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Corteva, Inc. (CTVA)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Please stand by. We're about to begin. Good day, and welcome to the Corteva First Quarter 2022 Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Jeff Rudolph, Vice President of Investor Relations. Please go ahead.

Jeffrey Rudolph

Vice President, Investor Relations, Corteva Agriscience

Good morning and welcome to Corteva's first quarter 2022 earnings conference call. Our prepared remarks today will be led by Chuck Magro, Chief Executive Officer, and Dave Anderson, Executive Vice President, and Chief Financial Officer. Additionally, Tim Glenn, Executive Vice President, Seed Business Unit; and Robert King, Executive Vice President, Crop Protection Business Unit, will be part of the Q&A session.

We prepared our 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 the risk factors section of our reports filed with the SEC. We do not undertake any duty to update any forward-looking statement.

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

Is now my pleasure to turn the call over to Chuck.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Thanks, Jeff. And thank you for joining us on the call and webcast today. Corteva delivered a solid start to the year with double-digit sales and earnings growth in the quarter. Despite pressure from ongoing inflation and supply chain challenges, the team delivered impressive despite pressure from ongoing inflation in Supply chain challenges, the team delivered impressive value creation. Every region delivered double-digit organic sales gains led by strong demand for advantage technologies. Further, the company continued to drive penetration of our leading pipeline with new crop protection product sales of approximately $480 million, a nearly 60% increase over prior year. This was led by products like the Enlist soybean system, which continues to gain traction in the market, given superior performance and grower confidence. And we expect to be on at least 40% of the US soybean acres in 2022.

We are encouraged by the current ag market backdrop and the overall financial health of the farmer. Market demand is solid, evident by the strong position of our order book and growers are investing in their crop through top technology to maximize yield. We expect these trends to continue throughout the year given current commodity prices and the fact that productivity on the farm from top tier seed genetics in yield advantage Corteva products is the best way to manage inflation.

Despite robust customer demand, we continue to experience increasing global macroeconomic uncertainty similar to 2021 supply chain challenges due to labor shortages, logistical constraints and COVID-19 impacts are leading to further inflationary trends. This is compounded by the rise of global energy prices, which is adding to the volatility of raw material availability and prices.

Given that we are still early in the growing season in the Northern Hemisphere and the significance of the first half in the agricultural industry, we are maintaining our guidance at this point. In addition, there are significant global macroeconomic and geopolitical considerations. All of this is against the backdrop of strong ag market fundamentals and we remain constructive on the year and we'll provide an update on guidance as the year progresses.

Turning to the work we kicked off earlier in the year on accelerating the operational performance of the company. In the quarter, we announced that we are moving from a matrix organization to a global business unit model to drive overall simplicity and speed of business while increasing accountability.

We have two great global leaders to run these businesses and extract the value potential we see in our premium technologies. Tim Glenn, who is an ag veteran with tremendous experience to capture the value of our market-leading seed franchise. And I'm excited to welcome Robert King to Corteva, given the experience he will bring to the Crop Protection business to maximize our operational effectiveness and growth potential.

This was a critical step for the company as it now allows these leaders to focus on optimizing their business and operational structure to maximize the customer experience and deliver on growth and earnings potential. This will include prioritizing the product portfolios, the markets we serve and how we go to market. This will also include optimizing all support costs. This work is well underway and we will provide updates in the near future on our progress.

Now let's go to slide five where I'd like to provide our insights on the ag market outlook. As I said in my opening, ag fundamentals remain strong despite recent market volatility. We expect record demand for grains and oilseeds in 2022, which we believe will keep commodity prices at elevated levels. And we expect this trend to continue for at least the next few years as ending stocks will remain under pressure.

Recent volatility has increased due to several factors surrounding production, including the impact of global food supply from Russia's war on Ukraine. This region is vital to providing grain and oilseeds to the world, including countries where food security is critical, leading to further pressure on an already tight global food system. Corteva recently announced our decision to exit Russian operations while also committing to donate commercial Seed to countries affected by these issues to help ease food security risk.

Weather is another factor impacting production in key markets like Brazil in the US. Dry conditions in Brazil have led to yield and seed production impacts, which in turn impact supply in that market and keep seed availability tight. Despite a slow start to the planting season in the US, which shifted some US seed deliveries into the second quarter, farmers are very motivated to get the crop in the ground.

We are also seeing, for the third time in recorded history, soybean acres outpaced corn acres. They will provide more details on this later. Grower balance sheets and income levels remain healthy despite increased input costs for fuel and fertilizer. This is leading to customers prioritizing technology for 2022 to maximize return. And Corteva is in a good position to capitalize on this opportunity.

And with that, let me turn it over to Dave to provide details on the quarter and the outlook.

David John Anderson

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

Thanks, Chuck, and welcome, everyone, on the call. Let's start on slide 6, which provides the financial results for the quarter. As Chuck said, as you can see from the numbers, we've started the year strong. 2021 organic sales increased 16% with gains in both segments and all regions. Global pricing was up 9% with notable increases in Seed and crop protection. Crop protection volume growth was driven by strong early demand in North America and the strength of new products, which delivered approximately $180 million of sales growth year-over-year. We delivered more than $1 billion in operating EBITDA in the quarter, a 15% increase from the same period last year. This is impressive performance given the higher costs incurred in the quarter as a result of inflation.

Pricing and productivity more than offset this expected impact, as well as an approximate $160 million currency headwind driven by the Turkish lira and the euro. This improvement translated into almost 100 basis points of margin expansion year-over-year.

Going to slide 7, you can see the broad-based growth with double-digit organic sales in every region. In North America, organic sales were up 15%, driven by crop protection on early demand for herbicides, including Enlist. Seed volumes were down versus prior year, primarily due to seasonal timing of US pioneer brand corn deliveries. Both segments delivered notable pricing gains, a testament to the demand for our technology and our ability to price for higher input costs.

In Europe, Middle East, and Africa, organic sales increased 12% compared to prior year, driven by strong price execution. Local pricing helped to mitigate currency impacts, which was a 13% headwind in the region due to – due again to the Turkish lira and the euro. Demand remains high for new and differentiated products, including Arylex herbicide and Inatreq fungicide, driving 6% crop protection volume growth year-over-year. The region overall performed well in the quarter despite the war in Ukraine that started in late February.

Speaking of Ukraine, demand was strong in military Ukraine, demand was strong in military-free areas for both crop protection and seeds. We did experience some supply constraints in the country due to logistical challenges of importing product. Our local teams were resilient. They were committed to deliver products and support our customers when able to do so. Farmers continue to plant crops and per local estimates, many expect more than 70% of Ukraine's spring crops will be planted.

In Latin America, we delivered 26% organic growth with double-digit volume and price gains. Pricing increased 12% compared to prior year, driven by a price for value strategy coupled with increases to offset rising input costs. Seed volumes increased 11% despite tight supply, driven by Brazil's [indiscernible] (00:10:45), while crop protection volumes increased 16% on demand for new products, including Isoclast insecticides.

Asia-Pacific organic sales were up 22% over prior year on both volume and price gains. Seed volumes increased 49% on the recovery of corn-planted area from last year's COVID-related impacts. Crop protection organic growth of 13% was led by continued demand for new and differentiated products, including Rinskor herbicide and Zorvec fungicide.

Let's now move to slide 8 for a detailed review of operating EBITDA performance. First quarter operating EBITDA increased by $130 million to over $1 billion. As I previously covered, strong customer demand drove broad-based organic growth with price and volume gains in all regions. On costs, we incurred approximately $200 million of market-driven cost headwinds in the quarter, driven by higher seed commodity costs, crop protection raw material costs as well as freight and logistics. The company realized $80 million and productivity savings in the quarter, which helped to partially offset this impact. Currency was a $160 million headwind, again primarily driven by the Turkish lira and the euro.

Stepping back, focused execution by the organization to meet increased customer demand and effectively managing cost headwinds through pricing and productivity resulted in almost 100 basis points of margin improvement for the quarter.

So, now to slide 9, I'd like to expand a little bit more on what we're observing in the current marketplace. Starting with our current planted area assumptions, we are aligned with USDA estimates for a 4 million acre reduction in corn or approximately a 4% decline and a corresponding increase in soybean acreage.

Additionally, unplanted area assumptions an important reminder a 1 million acre shift in the market from corn to soybeans in the US represents an approximate $10 million earnings headwind to Corteva. And as Chuck mentioned, we're closely monitoring the pace of planning given the slow start in the US.

Inflation remains the challenge as we face pressure from rising costs in commodities, energy and raw materials. Operational levers such as pricing and productivity actions are key for us to keep pace with these higher costs. And as you saw, the company recently announced plan to start production and operations in Russia. Russia represents approximately 2% of total Corteva annual revenue, with approximately 75% of that in the seed segment.

For 2022, we expect an immaterial impact from lost revenue. In addition, we expect charges in the range of $25 million to $75 million in connection with this decision with the majority to be treated as a significant item, therefore will not be included in our operating results.

Currency markets have been volatile to start the year as we saw a relatively broad appreciation of the US dollar. An exception to that is the recent strengthening of the Brazilian reais. Looking at the second half of the year, the Brazilian reais is our largest foreign currency exposure. And while we've largely hedged the BRL with a rate around $5.50, we do have some sensitivity to currency movements and would see a partial benefit from a strengthened BRL.

Now, given this backdrop, let's turn to the discussion regarding our outlook. As Chuck covered earlier, we're affirming our full-year revenue and earnings guidance for 2022. And I shared last quarter, we expect net sales for the year in the range of $16.7 billion to $17 billion, and we're likely trending towards the higher end of the range. For the first half, we expect high-single-digit reported revenue growth.

Turning to EBITDA, we remain on track to deliver between $2.8 billion and 3 billion, a 13% increase over prior year at the midpoint. For the first half, we expect mid-single-digit operating EBITDA growth given the disproportionate weighting of cost headwinds recognized in the first half. And lastly, we're adjusting our operating EPS guidance to a range of $2.35 per share to $2.55 per share. It represents approximately 14% growth over prior year at the midpoint. This increase is largely driven by anticipated lower share count due to the good start we've had in the first quarter on share repurchases.

Let's go now to slide 10. I want to leave you with some of the important takeaways from today's call. First of course, market demand is strong and combined with solid execution, it's led to a great start for Corteva including impressive margin expansion in the quarter. We remain confident in our ability to deliver 2022.

We plan to maintain our track record on capital deployment. We expect to return more than $1.2 billion to shareholders in 2022 in the form of dividends and share repurchases. Additionally, our balance sheet provides capacity for attracted innovation and targeted growth opportunities.

Finally, the company has taken very important steps in its strategic road map to accelerate operational performance and drive continued operating EBITDA margin expansion. More to come on this and we believe these strategies will further differentiate Corteva and position us to deliver increased value in years to come.

And finally, on slide 11, I'd like to provide an update about a significant upcoming event. We're excited to announce that our 2022 Investor Day will be held on September 13 at our global business and R&D center in Johnston, Iowa. The management team will provide updates on the company's strategy, our financial framework, along with special showcase on innovation in our pipeline. Chuck, Tim, Robert, Sam and I all look forward to seeing as many of you as possible at this event in September.

And with that, let me turn the call back to Jeff.

Jeffrey Rudolph

Vice President, Investor Relations, Corteva Agriscience

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll go first to Vincent Andrews with Morgan Stanley.

vin

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning, everyone. Just wondering if you can talk a bit more about the seed business and help us bridge 1Q with 2Q to kind of get to an understanding of how the first half or the overall season is going to play out. So maybe to start with, the volume push out from 1Q to 2Q Because of the late season. How does that impact margins in the first quarter? How will it impact margins in the second quarter? And where do you envision the first half settling out?

And then secondly, I'm assuming you're looking for less corn and maybe more soy at this point, depending on what happens over the next couple of weeks. But is that the case and if that was baked into guidance now? And then lastly, how should we think about the corn and seed pricing in the US for 1H? From what we saw in the first quarter corn was up 6% and soy looked like it was probably negative, is that what the first half is going to look like or will it be a little bit better or a little bit worse? Thanks.

A

Good morning, Vincent. Thanks for the question. So, look, let me give you a couple opening comments and then I'll turn it over to Tim to talk about your specifics around the split between Q1, Q2, first half, second half. We're sitting here today in our headquarters in Indianapolis. We've been here all week. It's cool and it's wet. Probably no surprise to many that's been watching the weather, but certainly it's been a slower start to this season than last year.

That is impacting our results when it comes to the Seed for – Seed business for certainly for the quarter because of some weather delays here in North America, but also in Europe. We've got significant market volatility in terms of pricing and the planting decisions that farmers need to make are being impacted by the weather.

So, Tim will walk you through the dynamics. We did mention in the prepared remarks we've got a strong, a very strong order book and Tim can walk you through that. I just want to remind though, the group here though that if you look at the longer-term value catalysts that we have, you know, the Enlist Seed platform is really performing very well beyond our expectations. We did say we expect 40% of the US acres to be – on that platform, and that will set us up nicely next year for meaningful royalty reductions in 2023.

And then, just to call out Brevant, our new multichannel technology, it continues to perform very well. We've got very good demand across the channel in that we are now selling it in North America, Latin America and Europe, and that is exceeding our expectations as well. So now, I'll just turn it over to Tim to talk a little bit about the dynamics we're seeing here in the first – we saw on the first quarter and what we expect in the second quarter in the remainder of the year. Go ahead, Tim.

Timothy P. Glenn

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

A

All right. Thanks, Chuck, and good morning, Vincent. So, maybe I'll address three points you made. Their first is around just the pace of the season in the US. Second is pricing, and I'll touch on the seed margins and what we're seeing there. So, you know, obviously, as you mentioned and Chuck said, we're off to a slower start than we'd like in terms of – in terms of the pace of planting in – across North America, really. And it's wet, cool conditions that have driven that. That was reflected in our first quarter seed sales where we saw some Pioneer business that did not make it into the marketplace.

Remember, how we recognize revenue is we distribute all that Seed to our local sales representatives. They deliver that last mile to the farm gate when the farmer needs it, and that's when we recognize the revenue. So it was – it was that last mile to the farm gate that was the issue as we had challenging weather conditions at the end of March.

So, you know, what I would emphasize here is that there still is more than adequate time to get this crop planted. And the economics that farmers are seeing are still very strong. And so, whether they're going to plant corn, whether they're going to plant soybeans, whether they're going to plant cotton, there is a strong incentive for them to get that crop in the ground. And at this point in time, you know, we're not seeing a switch between corn and soy in terms of farmers switching the crops that they intend to plant.

You know, the other thing I'd emphasize is that farmers have a tremendous capacity to plant. And so it's not unusual when we get into planting season for farmers to be able to plant 40% of a specific state in the matter of seven days. And so I think as the weather starts to open up here, we're going to see, you know, a huge push forward in terms of planting activity. And so from that standpoint, you know, what we're doing is we're staying close to our customers, helping them navigate the decisions that they're facing in the marketplace so that they can make the best choice for their operations. And we're there to help meet their needs.

In terms of – in terms of pricing, we – we did have a strong start to the year, both globally and within North America. And in the first quarter, we saw global seed prices up around 8%, corn around 8%, and actually global soy was around 6%. So we had good solid start for the year on pricing and we anticipate that to continue through the first half.

We're looking at solid mid-single digit growth in the – in the first half that will we'll see that go forward. And again, you know, farmers have been motivated to plant the best products they possibly can, high performing hybrids in the case of Seed. And we've got an excellent lineup of products. And clearly I would also emphasize, you know, we've got a strong, disciplined approach for managing price with our customers. And I think have a proven ability to execute in the field to capture value. So, that's where we're at on pricing. So, very optimistic and I think consistent with what our expectations were as we started the year.

In terms of seed margins, you know, what we've seen is clearly some margin compression on the seed side. And you know, I'd say most of those headwinds we had expected as we came into the year, you know, in terms of those headwinds first, you know, we had a higher than expected currency primarily out of Europe, about $90 million at EBITDA level on Seed. And that was primarily from the Turkish lira as well as the euro. We also did have that impact on margins that I discussed a little bit earlier due to the weather impacts. A little bit less corn sold in the first quarter and again, especially on the pioneer side in North America.

And finally, the other factor is really unrelated to the operations. And we had about 100 basis point impact from an equity adjustment on an investment that we hold. So, completely non-related to the operations of the business. And I'll guess I'd pass it over to Dave and anything you want to add in terms of that equity holding.

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

A

Yeah. That's a – those are all really, really good points, Tim. And by the way, just back on that currency and you know, you stated dollar terms, but just for your benefit and everybody, you know, it's over 200 basis points when you do the walk. Now, some of that obviously we expected, you know, in the course of our guide for the year. But incrementally that turned out to be significant. So, regarding the, you know, the equity invest, we had a loss in the quarter mark-to-market on a on a V, this compares to first quarter of 2021 That represented an impact of almost $30 million or, as Tim said, about 100 basis points. It's the company that where we've held an investment in technology-base. And have had it for over six to seven years and IPO'd in the third quarter of 2021. So, we're on a mark to market accounting now. So, that's really the background on that. I appreciate the question.

Q

Okay.

Operator: We'll go next to Dave Begleiter with Deutsche Bank.

David Begleiter
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Chuck and Dave, I think your guide into Q2 being a little bit below consensus maybe from the full year. So, what's the offs in the back half-year that's coming in maybe a little bit better than we expected for you guys.

A

Yeah. David, let me give you the backdrop on sort of our position on guidance and Dave can talk to the specifics. So, look the ag fundamentals, as we said, are very strong. And I think Corteva has had a real solid start to the year. And demand, we are expecting to continue to be strong through the remainder of this year and well into 2023. The other thing we like is the execution of the overall businesses now. You know, our execution has been steady despite the supply chain challenges, the cost pressures we've outlined. And I think we're making excellent progress in cost management, pricing and productivity actions that we're taking. But it is early. You know, we're sitting here in the early days of May, the seasons a little later than last year. And in ag, you have to obviously think about the first half. So, what we're doing right now is we're reaffirming the guidance. You know, we're very comfortable. We like how the season is unfolding. And now to get to your specific question on sort of how we think about that range and what we think may or may not happen, I'll let Dave kind of give the specifics.

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

A

Yeah. I think probably the starting point is what we – what we shared on the call, which is consistent with what we originally provided by way of the 2022 guide, which is given the, call it, the slope of the cost curve over the course of 2021, you know, what we're seeing is that those costs ramp and particularly, by the way, into the second quarter of this year, we see that ramping, you know, accelerating a bit and that's built into our guide.

So on a year-over-year basis, we see the first half, you know, revenue like we said, high single-digits growth, but EBITDA more in the range of mid-single digits growth. Again, that's consistent with the guide that we've provided to you – that we provided to you previously. And that's just – that relationship is again just related to the comps in terms of the period over period or year-over-year change, particularly on the cost curve that we see.

Now, the second half you know, appears to be setting up pretty nicely and that's included in our – in our full year guide and the range. I would say that our expectation is we're likely to be at the high end of the revenue range and that's again reflective of what we see and anticipate in terms of ongoing inflation and pricing to offset those cost impacts. And despite those – those inflation headwinds, you know, we anticipate to be in that range again that we that we've gotten to in terms of the full year EBITDA.

The other thing, of course, is we're seeing is Brazil planted area improvement. Tim referenced that a little bit when he was talking about Seed. And, Tim, you may want to comment a little bit more about Brazil, but that Brazil planted area is clearly also something that's positive for us when we look at the second half of the year.

Tim, any comments you would want to add on that?

Timothy P. Glenn
Chief Commercial Officer & Executive Vice President, Corteva, Inc.

A

No, I think, Dave, you're right. The – you know, clearly there's strong incentive for you know continued growth in the soy area in Brazil. And we expect that possibly at the expense of first crop corn. But we expect that second crop corn, which is the largest market and most important market in Brazil right now, to grow nicely as we go into 2023 cycle. So, very, very positive about what the outlook is there.

Operator: We'll go next to Chris Parkinson with Mizuho.

Christopher Parkinson
Analyst, Mizuho Securities USA LLC

Q

Great. Thank you so much. When you take a step back on your [ph] CPC 00:29:58 business, and you look at the growth of some of the higher margin, newer products here, [indiscernible] 00:30:04, Rinskor, Zorvec and so and so forth. And then, also the pricing you're getting in the vast majority of your geographies. Can you just give us a little bit more perspective on how you're – obviously, you're still facing some inflationary pressures now, but can you give us a little bit more perspective on how you're thinking about the intermediate to long-term margin profile of that business? Thank you.

A

Yeah. Good morning, Chris. Yeah, I'll have Robert comment on the specifics and we're very pleased with the trajectory that we're on. So, maybe just a few high level comments. So, the [ph] CP 00:30:35 business this quarter, we saw strength basically across the board and it's really from customer demand that are really asking around the latest technology, the new products to drive productivity on the farm. So, one of the best ways that farmers can help offset the inflationary pressure they're seeing on the farm is to drive productivity.

And with that, they're going to need technology. And our pipeline, as we've talked about, is growing quite rapidly with our new products. And so when we look at it, we think what's happening in our business is you're starting to see in its early days, but you're starting to see the impact of our new product portfolio on our bottom line. And Robert will talk to the specifics. The other thing that I'll just call out is later this year, we will bring up our new [indiscernible] 00:31:25 capacity late this year. And so you'll start to see the impact of that incremental capacity.

and, of course, margin that will follow with it late this year and into 2023. So we like the setup in the portfolio for the CP business and that's what I think we're starting to see in the results.

Now when you think about the inflationary response and how we managed price but I'd also say productivity in that business, I'll turn it over to Robert.

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

A

Yeah. Thanks, Chuck. It was just getting started overall. We do see a high demand strength across the board for our technology. Supply chain held up this quarter, held up very well, actually, moving more than 18% of volume on a year-over-year basis, and that's an unprecedented headwind. So we're able to keep up and do a good job across the board. The new products that you mentioned there were up 60% on a year-over-year basis. And we really see that that's the value creation that from our new technologies that the growers want to see.

As we look into – as we continue to look forward and for the first quarter, pricing grain gains across the regions really reflect our ability to use price and productivity to offset higher costs. We're confident we'll continue to see these things as we move forward into the rest of the year and with a good start of the year.

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

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Good morning, everyone. Last quarter, you provided a helpful bridge to your 2022 annual EBITDA versus 2021. And I imagine you may not be in a position to update every item every single quarter, but nevertheless, can you provide some thoughts on three bridge items: your productivity goal, your net foreign exchange as it's tracking today, and then the cost headwinds that you foresee in both Seed and crop protection for the year.

A

Yeah. Kevin, I can give you a little bit there. I may – I may ask you, given the list that you just went through, I may ask you for a little bit of a reminder of each item that you had on that. But let me talk a little bit about the bridge and the update on the bridge.

I mentioned that just a little bit earlier. It's sort of embedded in what we've assumed in our guide. I think the most important thing is the fact that we see inflation continuing and that impact is going to be particularly felt in terms of our costs. It's going to be particularly felt on the crop protection side. So the assumption is in the guide that we've given you is that we expect to be at the higher end of our revenue range. So that's $16.7 billion closer to the to $17 billion in terms of the full year outlook.

It's really based on inflation and then pricing. So, you know, that's – that's really sort of fundamental. So if you looked at that EBITDA bridge, it's really those – those two items that are, that are increased on a prior guide to now update here at the end of the first quarter.

Second, with regard to foreign currency, as we mentioned, we have fairly significant impact to foreign currency. If you look at the total Corteva, as you know, it's about 220 basis points – 225 basis points of impact in the first quarter. Currency is going to abate to some degree as a percent as an impact as we go through the year. And there's two things there. One is just again, the comparables compared to the prior period, which get a little bit easier on the currency side. And the second thing is That we have some potential for its improvement on the BRL, the Brazilian reais compared to our assumption. We're hedged currently at 5.50 in the second half. As you know, the reais is closer to 5.0. I think it's little bit 5.0 today in terms of where it is trading. So, we have some potential upside there against what we've assumed.

And then on the cost piece, I think it was the third component of what you asked about. And let me say two things that I think are very important. Number one, again, and Robert emphasize this to his response to the earlier question is that we are because of our advantage technologies, we are able to price against the cost that we're seeing in the marketplace. That's very, very important. So, and we expect again those cost headwinds to continue over the course of the year.

The second thing I would mention on the cost side is the productivity that we're seeing on the SG&A. I mean wage inflation is in the headlines everywhere today. We're experiencing the same kinds of pressures. The reality is you'll see this in the financial backup to our earnings release. The SG&A we've been able to hold flat on a period over period basis which is I think quite impressive.

Despite by the way underlying bad debt accrual increase as we normalize that over a period favorable set of conditions in 2021. So, that's the other thing that you should be aware of, is it it's not just the let's call it cost of goods sold, management that we're doing both productivity as well as pricing to offset inflation impacts. We're also managing if you will the below the line to support cost as we look over the course of 2022. And by the way, something that we think is also going to serve us well as we set up for 2023. So, thanks for the questions, for the questions.

Operator: We'll go next to PJ Juvekar with Citi.

Patrick Cunningham

Q

Hi, this is Patrick Cunningham on for PJ. Good morning, everyone. So, with the current run-up in corn prices, what does that mean for your seed costs next year and pricing next year, given that this season's pricing was fixed back in the fall? But also how much of your corn production is hedged for next year? Thanks.

A

Tim, do you want to take that?

Timothy P. Glenn

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

A

Yeah, I will. So, obviously we're worried about getting the last 85% of this season's crop in the ground, but we are working hard on 2023. So in terms of COGS, you know, obviously, commodity price is one of the most important factors that impact seed COGS. And so we're looking closely at that right now. And there is clearly going to be a headwind on a year-over-year basis. So, there's no question about it and it's not as simple as saying the commodity prices were X and now they're Y and extrapolating that because there are a number of factors, including the hedging approach that we have – that have an impact on that.

So, we're in the process of sizing that up, and I would say, we're probably not prepared to share what that – what that increase would be. But we're working on that as well. And in terms of how we manage that, we're in the early stages of putting together our total plan for 2023. So, the commercial organization has finalized what the mix of products are that we're going to be bringing to the market in 2023. We're in the process – process of planting our seed crop for this year that will be in the market in 2023. And obviously, we're in the same situation as farmers in terms of wanting to get that in the ground. And finally, we're developing our market offer in terms of pricing programs. And so, we're way too preliminary to get into the specifics around that.

Underlying, we continue to expect there to be favorable with economics for our farmer customers. And so demand for premium products is going to continue to be high. We also do have a strong record of capturing value for our technology. And so we have products that growers want, and we have strong execution in the field. And we know that our – the levers, key levers that we have to deal with those escalating commodity prices, clearly productivity is a big part of that, and we're constantly working to get the most efficient operations we can, but also pricing. And again, we're working on sizing that up. We're confident that as we go into 2023 we will be able to cover our cost headwinds in terms of commodity either through productivity or pricing and that it will be accretive to our underlying margins for Seed.

Operator: We'll go next to Phil Jackson with BMP (sic) [BMO] 00:40:32 Capital Markets.

Alex Chen

Q

Hi. This is Alex Chen on for Joel Jackson. Thanks for taking my question. With respect to higher crop prices and inflation, how are you seeing farmers demand change with respect to crop chemicals? Are there any particular buckets of products demand you're seeing stronger or weaker trends and maybe why? And if you can maybe elaborate on when you expect costs to fund out for crop production? Thanks.

A

Hi, Alex. Good morning. We'll ask Robert King to answer that question for you.

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

A

Yeah. Alex, thanks for the question. When you look at our portfolio and what we're doing, you're beginning to see the new products starting to show up in the marketplace And that technology is again, is being something that's adding value to the farm gate so it helps the farmers be much more productive.

So in terms of what would we see moving forward with, you know, we're working heavily on a robust pipeline to continue to move this forward. As Chuck mentioned earlier, our spinosyn manufacturing is under expansion and we'll finish about 50% capacity increase there as well. So, overall, we're going to continue to balance this thing moving forward with price and productivity for the rest of the year in the crop production area.

Tim, you may want to add a few things for the Seed?

Timothy P. Glenn
Chief Commercial Officer & Executive Vice President, Corteva, Inc.

A

No. I think just to build off that, Robert, I mean, clearly, we've got a very strong preference for customers for, again, the products that are going to make them money. And, you know, we always have a strong mix. It's on the premium side, and I think that's reinforced here.

You know, the other element that we're looking at as we go into 2023 is what's the mix of crops that are to be planted as well and we would anticipate that that will continue to shift as we go into 2023 and will be somewhat dependent upon what ultimately gets planted in 2022, but also what's produced in other parts of the world. So we're going to look heavily at that. And, you know, as you sit here today, you would say that the mix for 2023 is maybe favoring corn or a little bit more than what we saw as we came into 2022.

A

Yeah. And just on this backdrop, so look, we said that the fundamentals are going to be quite strong. Really, if you look at crop commodity prices, what it's telling us is that the world needs to produce more food.

A

Yeah.

A

So we not only need, you know, we're talking about mix here which is important but we need more acreage to be put into production. And then, of course, we need technology to drive productivity yield on every acre we have.

To drive productivity yield on every acre we have. And so, there seems to be a shift underway to take the top technology in terms of genetics and traits for Seed. And then, of course, the top technologies and CP to drive every last bushel per acre. We think that this will continue. If you look at farmer economics around the world, things are quite robust. Farmers are in a good financial position. In fact, if you look at the US farmers, the predictions are that this year would be a record revenue year for US farmers and I believe the second most profitable in the last decade. So, there's high motivation, as Tim mentioned, to get that crop in the ground and then to protect and grow that crop. And I think what you're going to see that we're very well-positioned as an integrated company to catalyze it on that trend, but also to help farmers drive productivity sustainably.

A

Chuck, maybe just one other thing, Robert. Maybe just one other thing and then sort of embedded in our responses, part of the question obviously had to do with the cost and over time inflation outlook. Your know, our expectation when you look at the leading indicators, all of those are pointing to continued inflation. So, we're not counting on some kind of meaningful abatement anytime soon. And one of the things that Robert is obviously and his team is very focused on is the resiliency of our supply chain. And I have to say, in any metrics that we've looked at in a comparative data that we've looked at, ours ranks very strong. And we're seeing that in terms of delivery, in terms of the results that we're achieving as well. Particularly when you think about all the geopolitical pressures and other things that are going on in the world. So, that's also underlying in terms of what we're focused on.

Operator: We'll go next to [ph] Steve Byrne 00:45:14 with Bank of America.

Stephen Byrne

Analyst, BofA Securities, Inc.

Q

Yes. I would like to drill into Seeds a little bit more here. You reported your corn seed price up 6% or 8% and soybean up 6%. And given your Pioneer business, you would know exactly what your customers are ordering. So my question for you would be how much of that 8% and 6% or maybe a zero just in on North America, but how much of that would you say is like-for-like price increase versus a mix shift up the price card? Are you – are you seeing your customers, you know, change the genetics of what they're planting a little more than they have in the past? Would you expect them to perhaps do even more of that in 2023? And then one quick one, your EMEA corn seed pricing gains were pretty significant. Can you just comment on how much of that seed business is transgenic?

A

Yes. Steve, thanks for the question. So in terms of mix of products, you know, what I would say is, you know, the price – the price that we're capturing is very similar to what we would have taken to the marketplace in terms of our price card movement as we came into the year or so. So, you know, I guess two parts of the question in terms of North America.

You know, is there a major shift in terms of the trait mix? And I would say generally not. You have these modest shifts on a year to year basis in terms of – in terms of, in terms of our trait mix. Question on genetics, absolutely. Farmers are always looking to plant new and better genetics. And so typically, you know, think about our turnover. Every year in our lineup, we have 20% to 25% of our seed lineup would be new and improved genetics. And as

Chuck said, as Dave said, that productivity that farmers are striving for in their operations, largely that's going to come from those new and improved genetics. So I would say that that is clearly something we're seeing this year, but we see that every year just because it's that pursuit of that next level of productivity.

So, you know, it's a – it is, it is a great start to the year, I think very consistent with what we expected. And I wouldn't say that it was a mixture of – it was really driven by the fact that we came out with a, you know, strong lineup of high performing products and we were able to capture the value and feel very good about – about where we sit there.

In terms of Europe, specifically on the price side, very, very limited Seed in EMEA would be – would be transgenic, very small amount in Spain would be transgenic. So that is nearly all non-transgenic Seed. And again, the same dynamic around new and improved genetics is at work there. I would tell you to some extent, Europe is a little bit impacted because of the Turkish lira. And so you're getting a little bit more pricing there because, you know, we're aggressively pricing that severe devaluation that we faced in Turkey and that so – so that's skewing the numbers in Europe a little bit there. But the same approach to capturing value for our high performing genetics is very good.

And we feel good as we roll out of North America and move into the rest of the world for the rest of 2022, that we're going to continue to see that call it mid-single digit good strong mid-single digit growth on Seed throughout the year.

Operator: We'll go next to Michael Piken with Cleveland Research.

Michael Piken
Analyst, Cleveland Research Co. LLC

Q

Good morning. I just wanted to dig a little bit deeper on the soybean side. You mentioned that – this might be about 40% of the acreage. I'm curious, you know, what percentage of those acres are actually going to be sprayed with Enlist herbicides? And then secondarily, if you could talk about, you know, how the transition toward Pioneer, Brevant, Enlist, genetics is going for this year and what your target is for next year? Thanks.

A

Yeah. Great question. And let me take it. So we're still really excited about the adoption of the system. And I would tell you, as we sit here today, again, with a relatively small amount of the crop planted, we're holding to that original guide around at least 40% of the US soy acres will be planted with an Enlist E3 variety, so that holds steady. And why we can't update that right now is we only have so much visibility to what the 100 licenses are in the marketplace, what they're ultimately selling. And we'll have a much better understanding of what ultimately went in the ground as we get past the midyear and after the planting season. So we feel good about that.

In terms of the adoption of the Enlist herbicide and really getting the full value of the system, we're over 80% treated with the Enlist herbicide. So really high utilization. And again, I think that goes to the value that customers are seeing. So, pre-season is really into Enlist E3 soybeans. And we can confidently say when you look at the seed adoption as well as utilization of the chemistry, it's become a very trusted option for growers, and growers see it as a go-to option, and we don't see that slowing down.

Your question around genetics and where we're headed here, I mean, this is going to be a really important season for us, and we're going to be doing extensive demonstration trials of a new class of Corteva developed E3 varieties that we anticipate ramping up for 2023. So the question is your point is when are you going to see it? I think you're going to start to see that in terms of demonstration in 2023 – or 2022 in the field in anticipation of a significant move in 2023. So – and again, once we get through the planting season, you know, we'll be in a better position to update that 40% number for planting of E3 Seed but feel very comfortable that that will be at least at that level and again at that high utilization on the chemistry system.

Operator: We'll go next to Joshua Spector with UBS.

Lucas Beaumont

Q

Good morning. This is Lucas Beaumont on for Josh. So I just wanted to get back to core protection pricing a bit, if we could. So, I mean, yours has accelerated kind of double digits. I mean in the market more generally, we're seeing fragmentation sort of where certain products are out very significantly than others more modestly in the normal kind of mid-single-digit range. Can you discuss sort of the mix and pricing you're seeing across your portfolio? And then just how you think the overall CPC pricing will evolve through the rest of 2022?

And I guess just lastly, like when are you kind of expecting pricing to peak now this year given it's already quite elevated? So I mean do you think it will accelerate or decelerate kind of into the fourth quarter and sort of roughly what you think your exit rate will be? Thank you.

Robert King

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

A

Yeah. Hello. This is Robert. Thanks for the question. Yeah. We did have a have a good start in Q1 and thanks for recognizing the margins. You know, as you look at where we are and as we're moving forward here, you know, we're in an improvement process. Our new products are starting to show up. I've always talked about quite a bit and this mix is helping us not only with the farm productivity but with the value that you're seeing in and it's getting pulled forward.

When you begin to look at the rest of year, we do expect to have some headwinds. And as you know, in the Crop Protection, our business will shift to the South and to Latin America so their mix will be a little bit different. But We've got new products coming on like the [ph] spinosyn 00:53:09 we talked about earlier. And we think that some of these things are going to help improve our offerings around the world and specifically in the Latin America. So, we're going to continue to balance inflation with cost increases of with price and productivity to help offset those. And overall, we expect margin to hold across the year.

Operator: We'll go next to Frank Mitsch with Fermium Research.

Frank J. Mitsch

Analyst, Fermium Research LLC

Q

Hey, good morning. Looking forward to Iowa in September for sure. And since [indiscernible] 00:53:45 conference call, you guys have made a move to one single headquarter in Indianapolis. You've spoken about, you know, the new organizational structure and also mentioned, you know, that, you know, optimizing the costs, support costs and so forth. And so, I was wondering if you could kind of size how we should be thinking about the productivity improvements for the company and, you know, sort of how the pace of that layers in over this year and next year.

A

Yeah. Hi, Frank. So, look, let me give you where we are. I'm probably not going to answer your question directly today. You need to come to Johnston, Iowa and you'll get that answer in September. But let me just kind of frame the journey that we've been on. So, look, I said this before when I started with the organization. But overall, I'm very pleased with the strategic direction of Corteva. I do believe that the company is quite uniquely positioned when you look at our products and our brand portfolio. The innovation pipeline, but more than the innovation pipeline, the science and innovation competencies and capabilities that we have in Johnston and here in Indianapolis. And then of course, Tim mentioned it today, our customer and channel reach is truly unprecedented. So, the work that we're focused on right now is really we're going to provide a little bit more clarity in September on the strategic direction. But I'd say it's tweaking. It's really clarity around what we will focus on and what we won't focus on.

We're going to try to really with the organizational changes we've made to move to two global business units. We're really trying to drive accountability into our culture. Streamlining and simplifying the product portfolio will be the next effort. So that effort is well underway right now where we're looking – we're looking at the global portfolio. We're looking at where we operate around the world, and we're trying to make the decisions on how do we enhance performance and drive speed of business.

And so that work is progressing very nicely. And by the time we – we get to the September Investor and Innovation Session that we're planning, we'll be able to give you at least a view on – on the operational and financial journey that we believe the company will be on. And by that point, we will have made some other decisions. And then, of course, the important part of September will be and the reason we're having it at Johnson is we'd like to demonstrate some of our technology. We're very proud of what we've been able to build over the last several years. And I think it's time that we sort of start sharing more of that with – with our stakeholders. So stay tuned.

Operator: Our last question comes from Arun Viswanathan with RBC Capital Markets.

Arun Viswanathan

Analyst, RBC Capital Markets LLC

Q

[indiscernible] 00:56:42 – 00:56:51

A

Arun, we – maybe operator, you can go to the next. Is there another question. We can't – we can't hear Arun.

Operator: Okay. We'll go to our next caller from Adam Samuelson with Goldman Sachs.

Adam Samuelson

Analyst, Goldman Sachs & Co. LLC

Q

Yes. Thanks. Good morning, everyone. Maybe going back to [indiscernible] 00:57:11 discussion on Enlist and the move of that into the higher end pioneer germplasm, can you just help us think about the – the market share for the higher end pioneer germplasm where it sits today. Has that been something where maybe there's been a little bit of loss of market share because it has the extend trait in it that you're no longer prioritizing and that it's going to see a pretty meaningful shift next year and just how we think about rebuilding that – the market share for your own germplasm and soy that includes the Enlist 3 moving forward?

A

Yeah. So, Adam. Good question. So, I would say that the products that we're selling today are high value and Pioneer has been very supportive of Enlist E3. So, this isn't about all of a sudden Pioneer is going to be in the game with Enlist 3. You know, our overall reach in the soy market with our brands is somewhere in the, call it, in the mid-30s would be what our brand share is and the majority of that would be in the pioneer side.

So, clearly, we've got a strong reach in the marketplace with our owned seed brands and we've got over 100 licensees that are in the marketplace selling Enlist E3. So, it's a material move. And as we ramp up our proprietary genetics, it's going to have a strong impact, not just in terms of, I think, the performance of our products and the experience that our customers receive. But it's also going to have a very positive impact on our financial performance as well on the underlying financial health of our soybean seed business specifically and also our overall seed business. So, a strong move forward as we move into 2023.

Unverified Participant

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

Operator: This does conclude today's conference. We thank you for your participation.