Corteva Agriscience 2Q 2021 Earnings Conference Call Transcript
August 6, 2021
9:00 a.m. ET

Operator

Good day, everyone. Welcome to the Corteva, Second Quarter 2021 Earnings Call. Today's conference is being recorded. During today's Q&A session, please limit yourself to one question. And now, I would like to turn the conference over to Jeff Rudolph with Investor Relations. Please go ahead.

Jeff Rudolph
Investor Relations Director, Corteva, Inc.

Good morning and welcome to Corteva's second quarter and first half 2021 earnings conference call.

Our prepared remarks today will be led by Jim Collins, Chief Executive Officer and Dave Anderson, Executive Vice President and Chief Financial Officer. Additionally, Tim Glenn, Executive Vice President and Chief Commercial Officer, and Rajan Gajaria, Executive Vice President of Business Platforms, will join the Q&A session. We've prepared presentation slides to supplement our remarks during this call, which are posted on the Investor Relations section of the Corteva website and through the link to our webcast.

During the call, we will make forward-looking statements, which are our expectations for, or statements about, the future. These statements are based on current expectations and assumptions that are subject to various risks and uncertainties. Our actual results could materially differ from these statements due to these risks and uncertainties, including, but not limited to, those discussed on this call and in the Risk Factors section of our reports filed with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

On our investor relations website, you can find our earnings press release and related schedules, along with our supplemental financial summary slide deck, which is intended to supplement our prepared remarks for today's call. These items provide a reconciliation of differences between reported GAAP and non-GAAP financial measures and should not be considered a substitute for the measures of financial performance prepared in accordance with GAAP.

It is now my pleasure to turn the call over to Jim.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Thank you, Jeff, and welcome to the participants joining the call today.

Starting on slide 4.

We launched Corteva with a strategy grounded in building and delivering value for shareholders through new product innovation that drives organic growth and margin improvement, organizational efficiency and rigor, and disciplined capital allocation. As I speak to you today, I'm happy to say this strategy is working.

Now that's a testament to the extraordinary efforts by our more than 20,000 colleagues worldwide over the last five years, beginning with the announcement of the intent to create Corteva. At its core, this team is focused on one thing.... Delivering. Time after time we have demonstrated tremendous resilience and adaptability by pushing forward to bring our purpose to life, advance our strategy, and deliver our near-term business results no matter the circumstances. So, to them I say thank you as I could not be prouder of their relentless focus.

Our first half performance is yet another solid proof point of our progress, with 6 percent organic growth and 17 percent Operating EBITDA improvement compared to the prior year. In Crop Protection we continue to build on our new product momentum and now expect we will deliver

$400 million in sales growth for this part of the portfolio for the year, up from our prior estimate of $300 million. A direct result of successfully advancing our pipeline. In fact, through June of this year we received nearly 90 additional new product registrations for our Crop Protection portfolio.

Market fundamentals remain positive as growers look to best-in-class solutions to drive productivity and capitalize on what likely will be a record year for income levels in key markets such as the U.S. and Brazil. This helped drive pricing in seed, specifically 3 percent increases in corn globally – as well as further penetration of the Enlist soybean system for 2021, now estimated to be on approximately 35 percent of U.S. soybean acres. That's up from prior estimates of 30 percent.

Execution is sound and we are carrying substantial momentum. As a result, we are raising our guidance for full year. We now expect to deliver between $2.5 billion and $2.6 billion in Operating EBITDA for the full-year 2021, representing a 22 percent growth over the prior year at the mid-point. Importantly, we also expect to maintain the operating leverage we delivered through the first half, with an impressive 200 basis point increase in margins for the full year on the organization's continued agility in the face of ongoing supply chain volatility and cost inflation.

Which brings us back to value creation. In addition to strong earnings growth, we are also advancing our commitments on returning cash to shareholders. Specifically, Corteva returned approximately $750 million in cash to shareholders via dividends and share repurchases through the first half and we recently announced a dividend increase of 7.7 percent and a new $1.5 billion share repurchase program. In total, we expect to return more than $1.2 billion to shareholders through dividends and share repurchases by the end of 2021.

The bottom line: we are executing on what we said we would do. We are delivering operating leverage and we are intently focused on advancing our strategy to deliver value for all of our shareholders.
So, looking at slide 5, which has our financial results for the quarter and first half.
So, quickly touching on the quarter, we delivered 6 percent organic growth on gains in both segments led by North America and Latin America. This translated into earnings growth of 18 percent and margin improvement of more than 200 basis points. Another solid quarter of continued growth and margin improvement.

Now focusing on the half, sales gains were led by execution of our new product pipeline where new Crop Protection products delivered $260 million in sales growth over the prior year. Additionally, Seed sales improved on increased planted area in U.S. soybeans and strong demand for corn in Latin America. We continue to deliver on our price-for-value strategy as global corn prices improved 3 percent for the half.

Now Dave is going to provide you much more detail on the earnings growth drivers for the half, but it is important to note the impressive level of margin improvement that we have delivered so far this year. Through the half, we drove nearly 200 basis points of margin improvement compared to the prior year on price and volume gains across the portfolio, despite the continued challenges on cost inflation that we and many others across various industries continue to face.

Again, this first half performance is yet another important proof point that our value creation strategy is working - further reinforcing our updated guidance for the full year.

So, shifting to the market backdrop on Slide 6.

Fundamentals remained strong, despite volatility in the commodity markets. We believe global demand will ultimately drive growth into 2022 and beyond as local economies recover from the pandemic related shutdowns. We're monitoring the impacts of the pandemic globally and will remain agile to ensure we continue to support our employees, our customers, and our local communities.

Now while the U.S. market remains attractive as we look to the near-term outlook, we see strong demand for best-in-class technologies in markets outside of the U.S. Take Brazil for example, where demand for grain is leading to increased planted area and rising commodity prices. With our market leading position for corn and one of the best new Crop Protection product lineups, we are in a strong position to capitalize on above-market growth.

While commodity prices will continue to react to short-term events in the industry, it's important to remember that the global diversity of our business is what provides an attractive outlook for growth. Together with sustained growth in global ag markets led by robust global demand, we are pleased with the acceleration in opportunities to deliver value to our customers in these local markets through our best-in-class products and advantaged routes-to-market.

Turning to slide 7, I'll provide more detail on the balance and the diversity of our sales growth across the globe and provide further proof points for the half.

In North America, organic sales were up 4 percent for the half. Seed sales benefitted from increased planted area for both corn and soybeans, coupled with continued penetration of the Enlist E3 soybeans. As I mentioned, we now expect Enlist to represent about 35 percent of the U.S. soybean market in 2021, and that's up from our previous expectation of 30 percent. On seed pricing in the first half, competitive pressures in the soybean market was aligned with our prior expectations, with pricing down 2 percent. Corn price in the Pioneer brand was up about a point compared to the prior year.

North America Crop Protection had a strong first half with 10 percent organic growth on continued demand for new technologies, including Enlist herbicide, and solid pricing execution in response to rising raw material, freight and logistics costs. Fungicide growth was also a highlight, up double digits as growers looked to take preventive measures to maximize yields.

In Europe Middle East and Africa, organic sales grew 5percent on strong pricing execution and record sunflower seed volumes. This growth was muted by an approximate $80 to $100 million sales impact from corn supply shortages. In Crop Protection, our portfolio of new and differentiated products remain in high demand, including technologies such as Arylex herbicide and Zorvec fungicide, which enabled us to drive price and volume and gain in market share in Europe, despite the impact of product phase-outs.

In Latin America, we delivered 23 percent organic sales growth on strong volumes and execution on our price-for-value strategy. In Seed, volumes grew to 20 percent on share gains in Brazil's Safrinha and earlier shipments for the Brazil summer season. In Crop Protection, volumes grew 9 percent on significant demand for new and differentiated technologies, such as Isoclast and Jemvelva insecticides. Pricing actions reflected strong product demand and helped to more than offset unfavorable currency impacts from the Brazilian Real.

In Asia Pacific, we realized 3 percent organic sales growth compared to the prior year on both volume and price improvements. Seed volumes were down largely due to COVID-related demand impacts primarily in Southeast Asia and India. Crop Protection organic growth of 11 percent was led by further penetration of our new products, including Rinskor herbicide and Pyraxalt insecticide.
So, Dave will now provide more detail on our first half performance and our upgraded expectations for the rest of the year. Dave?

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

Thanks Jim, and welcome everyone to the call.

Let's move to slide 8 for a detailed review of our operating EBITDA performance. For the first half you'll see that 2021 operating EBITDA grew $335 million versus the prior year to nearly $2.4 billion, a clear indication of how well we've executed in the first half, and a reflection of our ability to capitalize on robust demand for our products.

Driving the increased operating EBITDA were strong price and volume, with combined benefits of approximately $340 million. This came from focused commercial execution and penetration of new and differentiated products across all regions. To illustrate this, sales of new Crop Protection products grew over $260 million versus the prior year and at the same time, we delivered nearly 30 percent of organic Seed growth in Latin America, driven by strong corn sales in Brazil. And finally, we continue to extract value for our yield advantaged technology. And as Jim said, global corn pricing was up 3 percent during the half.

Costs were about a $60 million net headwind to operating EBITDA for the half. This includes delivery of approximately $175 million from productivity initiatives, including the ongoing benefit from asset footprint rationalization and other cost improvements. This helped to partially offset $240 million of cost headwinds in the half, which are primarily market driven.

Now, we continue to operate in an environment marked with challenged supply chains and cost inflation. In the first half, we experienced higher freight and logistics costs as global trait markets saw shipping demand outpace supply. Additionally, prices of certain active ingredients and intermediates continue to rise compared to the same period last year, including glyphosate.

Now, we continue to take action to mitigate these impacts where possible, including passing through certain inflationary costs for seed and crop protection products, and delivering against our productivity initiatives.

As evidence of our disciplined focused execution, we delivered more than 190 basis points of margin expansion in the half. It's notable in terms of the agile operations team delivering strong performance.
Let's go now to slide 9 to cover a few highlights from the Crop Protection segment for the half where organic sales grew 10 percent which included a 4 percent headwind from the strategic decision to phase out certain low margin products, primarily in insecticides.

Again, strong demand for our new technology led to sales gains, including an increase of more than $260 million in new product sales when compared to the same period last year.

Herbicides were up 13 percent compared to the first half of 2020, led by continued penetration of Arylex and Enlist. Fungicides grew 26 percent driven by strong demand for Zorvec and Inatreq primarily in Europe Middle East and Africa. And lastly insecticides grew 3 percent in the half, which included a 16 percent negative impact from discontinued products. Growth was largely driven by our differentiated spinosyns technology including Jemvelva and Qalcova actives – which were up 14 percent in the half.

Favorable product mix and strategic price increases drove pricing gains in all regions for the half, led by a 9 percent price improvement in Latin America and a 3 percent price improvement in North America.

Operating EBITDA for Crop Protection grew 26 percent from the prior year, driven by strong demand for new products and pricing execution. We did experience cost headwinds of approximately $130 million for the segment during the period. Overall, the headwinds more than offset our productivity actions. In most cases, we see these higher costs representing a new baseline, which we will continue to work to mitigate by taking pricing actions where possible and delivering ongoing productivity.

Now despite these challenges, we drove over 220 basis-points of operating EBITDA to our margin improvement in Crop Protection in the half, very impressive performance.

Let's go to then to slide 10 and talk about the Seeds highlights. You can see on slide 10, organic sales for seed were up 4 percent driven by solid pricing, coupled with market share gains in Brazil's Safrinha, demand-driven earlier shipments for Brazil's summer season, and also volume growth in North America on increased planted area aligned with USDA estimates.

On pricing, we maintained our track-record in extracting value for yield-advantaged technology. Corn prices up 3 percent compared to prior year, led by double-digit price improvement in Latin America.
Soybean volumes were up 7 percent for the half, led by approximately 5 percent increase in U.S. planted area. Soybean prices down 2 percent, consistent with our expectations, as we continue to see competitive pressure in the U.S. market.

Other oilseeds were up 21 percent versus the first half of 2020, reflecting record sunflower volumes in Europe and higher canola volumes in Canada.

Operating EBITDA for the segment improved 13 percent on strong price execution globally, ongoing costs and productivity actions, lower royalties and bad debt, and a favorable impact from currency. While we experienced higher input costs, the teams continue to manage through these headwinds and were able to deliver operating EBITDA margin improvement of over 200 basis points for the segment for the half.

So, now let's go to slide 11, and talk about our full year 2021 guidance. You can see there, the remainder of the year and our updated expectations for the full year.

And with the backdrop of a strong performance for the first half, we're raising a reported net sales guidance to be in the range of $15.2 billion to $15.4 billion representing 8 percent growth at the midpoint which includes an approximately 2 percent tailwind from currency. We're also raising our operating EBITDA guide and now expect to be in the range of $2.5 billion to $2.6 billion, representing 22 percent growth at the midpoint. This increase reflects continued strong demand for our new products globally in both Crop Protection and Seed coupled with strong price execution in key regions on technology and also improved currency.

Specific to the second half, we expect price to largely offset cost headwinds, which are notably seed-driven. And as a result, volume, primarily Latin America Crop Protection, is driving second half earnings growth. Now the volatility of exchange rates will continue to be a key variable we're watching, notably the Brazilian Real, where we assumed a rate of 5.25 for the back half of the year.

In Crop Protection, we anticipate $400 million of year-over-year improvement in sales from our new products, $100 million more than we originally estimated. The additional growth is a testament to strong demand that we're seeing globally for our best-in-class technology.
And as we talk about costs, the current inflationary environment is expected to continue through at least the end of the year. As a result, we now expect a net cost headwind of approximately $125 million for the full-year 2021.

This represents about $75 million in additional cost to inflation from our previous estimate. It's driven by higher input costs as well as freight and logistics. And we're actively monitoring supply chain pressures in the market, and the operational teams remain agile in meeting customer demand.

As it relates to SG&A, the organization continues to maintain disciplined spending and we anticipate that as a percent of revenue, SG&A is expected to improve by approximately 50 basis points for the year despite higher commissions and also variable compensation.
Taken together, it's an impressive improvement, an impressive outlook, and it really highlights the strong focus by the full organization to execute on our strategy.

Turning now to slide 12 and a few comments on cash flow, to give you a view on our 2021 cash flow expectations.

We now believe cash from operations will be in the range of $1.2 billion to $1.6 billion for the year, which reflects both increased earnings but also the investment we're making in working capital to support growth. The organization continues to focus on cash cycle time – it's working, as a result we're targeting improvement in net working capital turns for the full year.

We're increasing our CapEx spending target from $550 million to between $600 million and $650 million for 2021. The increase allows us to fund projects with high return on investment to support growth. And it follows a complete mid-year review that we completed of all of our capital programs.

We've experienced an improvement in the funded status of the U.S. pension plan year-to-date, driven by both asset returns and discount rate. The improvement provides increased probability that there will be no required contributions to the plan in 2021 or 2022.

Finally, as Jim stated we're committed to the return of cash to shareholders, as evidenced by more than $1.2 billion we expect to return via dividends and share repurchases by the end of the year, which includes expected progress on the new $1.5 billion program that we recently announced.

Now let me move to slide 13. I just want to give you some early insights on our planning process and thinking as we start to frame out 2022.

Importantly, carrying forward our momentum from 2021, we expect to see organic growth globally. This will largely be driven by execution and further penetration of new and differentiated products across all regions – reflecting the strength of our portfolio and our pipeline, which are expected to drive increases in both volume and price in 2022. For example, we continue to remain excited about the growth opportunities for spinosyns, which we believe will approach sales of $1 billion in 2022.

We expect Seed pricing to be additive to earnings when netted with the impact of higher cost of goods sold as a result of higher commodity costs.
And with our transition to Enlist, we expect royalty improvement for 2022, as part of our journey towards royalty neutrality by the end of the decade. Royalty reduction is anticipated to be more significant in 2023 and 2024, next year will be an important next step on continuing net royalty improvement.

And lastly, we remain focused on delivering against productivity as input costs continue to evolve with the current market environment. So, to manage this pressure, we're going to continue to drive execution and productivity initiatives, which are expected to partially offset any increased costs.

This is just our preliminary take on the setup for next year. We're going to share more details later this year, but certainly we view 2022 as a solid opportunity for earnings and margin growth as we execute our strategy, and we leverage our global footprint in our diversified portfolio.

So before turning it back to Jim, let me just do a quick summary focused on both our 2021 delivery and the setup for 2022.

This year is characterized by first half Operating EBITDA margin improvement of nearly 200 basis points and full-year margin expectations also improved by approximately 200 basis points. And the set up for 2022 is positive, we are driving growth in all regions across a strengthening portfolio and delivering solid operating leverage.

And with that, let me turn it back to Jim.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Thanks, Dave. And that's a great summary. Before we get to your questions, I'd like to share a few final comments.

Through our heads-down, focused execution by an incredible global team we've gotten through one of the toughest periods in the history of our industry. We emerged on the other side even better positioned to serve farmers and ensure the security of the global food supply – and to deliver value for our shareholders.

With our distinct competitive advantages, Corteva is positioned for long term sustainable growth in a rapidly changing global agriculture marketplace.

Now when I say sustainable, I refer to both Corteva's long-term growth and the way we will deliver it. As consumer preferences and environmental challenges change, farmers will need to adapt. And Corteva will be at the center of that relationship - deploying our knowledge, market presence, and industry-leading capabilities to assure the sustainable future of global agriculture by helping growers deliver more while using fewer resources.

Our knowledge of farmers' needs comes from the relationship that we have built over decades through our advantaged route-to-market, which helps drive our grower-focused innovation.

Now this is clearly showing up in our new products sales quarter after quarter and will continue to be one of our top priorities moving forward. And importantly, we have a number of exciting products that continue to progress through our pipeline in both segments.

So finally, our first half performance and updated guidance for the year clearly demonstrates that all of the elements of our strategy that we built are working.

Our team is: advancing our purpose; driving a culture focused on our customers; delivering on our commitments through focused execution; building momentum on long-term value creation; and most importantly, growing progress for all of our stakeholders for years to come.

So, with that, I'll turn it back to Jeff.

Jeff Rudolph
Investor Relations Director

Thank you, Jim. 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.

Operator

Thank you. For the sake of time, we do ask that you limit yourself to one question and one follow-up question.

Our first question will come from Joel Jackson from BMO Capital Markets.

QUESTION AND ANSWER

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

Good morning, Jim. Good morning, Dave.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Good morning Joel.

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

I appreciate the early look at the 2022. You seem to have a comment in the slide deck that reiterating that you're on track with your mid-term targets of 12% to 16%. EBITDA CAGR between 2019 and 2022. I want to just understand that's true. And that implies, you know EBITDA range next year of $2.8 billion to $3.1 billion. Can you just maybe comment as much as you can if that's true that you are comfortable that you will be in that range next year?

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Thanks Joel. Thanks for the question. And you're right our initial view views on 2022 are that it's going to just be another great on 2022 are that it's going to just be another great opportunity to continue to drive some really solid both top line and bottom-line growth. We think against what will be a really constructive market backdrop, that market could grow next year somewhere between 3% and 3.5%. And so, we're carrying some fantastic momentum and when you look at first half results you look at the setup and the revised guide for the second half of the year. And we just believe we'll be carrying some really good momentum.

That growth, also just to highlight, if you think about it is very broad based, right. We're leveraging a diverse footprint globally from a geographic perspective. But we're also leveraging a very diverse portfolio and that's coming from the new product pipeline but it's also coming from just great execution out there. So, as we continue to not only drive productivity that will be constructive to margin expansion and also taking a really solid look at pricing going into 2022. I think when I step back it's going to be very solid and I believe it'll be an opportunity for us to deliver above that market growth. It'll be an opportunity for us to continue to deliver that margin expansion that you've seen. And then that entire framework then Joel if you step back from it, really does align very nicely with those mid-term target expectations that you and I have talked about before. So, without going to a specific number I believe we're well lined up here and that framework is right on track with those mid-term expectations.

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

Thanks, Jim.

Vincent Andrews
Analyst, Morgan Stanley

Thank you and good morning, everyone.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Good morning, Vincent

Vincent Andrews
Analyst, Morgan Stanley

Maybe you can give us some early insight into your price cards are probably coming out later this month so. You know if we look at sort of the pricing achievement that you had in the second quarter for South America in seeds, you know 10%-ish, is that a good proxy for how we should think about North American pricing for next year or – or do you think it could be better than that or it will be a little bit less than that?

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Yeah. Great, Vincent. Thanks for the question. As we talked about this a number of times before, there are – there are a bunch of variables that go into how we think about seed cost as we go into the seeds and obviously into our – our pricing model. First is yield, how we do in seed production around our yield factor, the quality of what comes out of our seed production fields and you know how much discard that we have as we spread that cost over – over fewer units. Clearly, commodity prices and the prices that our growers locked in at the market quote that they locked in at on all of those seed production fields and they have a 12-month window to do that. So that factor adjusts and change as we go through all of that. So, we're sitting here today with some assumptions around average commodity prices and yield and quality. So, if I put all of our current assumptions today into our model, we would estimate that our seed cost of goods in North America could increase in a range of somewhere between $175 million to 225 million. And now this can change, it's still early. You know we still got a seed crop that's maturing out there and is based on our assumptions today. We feel like we now have a pretty good estimate of what to expect to flow through in cost of goods will be. With that said, as you've asked pricing is obviously our biggest lever to really help manage and cover that increase in costs. And so, I won't comment specifically on what our price cards are going to be, we're still finalizing those details. Our plans, as you suggested are to release those cards later this summer, consistent with our normal timing approach there. But the way I think about it rather than specifically talking about cards, I think about it overall in terms of earnings. And so, at this point I'd anticipate for 2022 that our seed pricing approach net of all of those cost of goods increases that I just mentioned would be incremental to EBITDA for that market. So, at the end of the day, Vincent what you have to do is look at our track record, right. The track record that we've delivered in 2020, the track record you're seeing now through this year and we're building momentum. So just pricing this year through the first half of 3% global seed shows you that we've got the team focused on that and we're going to continue to drive that momentum.

Vincent Andrews
Analyst, Morgan Stanley

Okay. And just as a follow-up do you think this was the last year of sort of the soybean price competition in North America that could turn positive next year. Or is there still some tussling to do out there?

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Yeah, it's always a really competitive market in that space and clearly, we have a big technology transition going on. But maybe I'll ask Tim to say a few words about soybean competition.

Tim Glenn
Executive Vice President
Chief Commercial Officer
Corteva, Inc.

Yeah, I think as Jim said we are in the middle of a technology shift out there. We've seen the penetration that Enlist has made the marketplace. Obviously, there's new competitive products that are coming into the market as well. And so clearly there's been some companies that have been competing for the attention of growers in terms of penetration pricing to try to get the right technology adoption. We've seen that for the past couple of years. It's hard to predict where we'll be going in 2022. I would go in the attitude that every year is competitive but you're competing more on value versus price. And as we think about the soybean market you know clearly, we're going to focus on the value that we're delivering our position relative to the competition and work closely with our customers and understand the value of our product as well as the value of the service that we're providing. We've been able to position the Enlist system very well with our customers and they are driving tremendous value not just from the seed but also the crop protection system that goes along with it. So, I feel good about our value proposition and I'm optimistic that the value that that we're delivering will be recognized in the marketplace. Clearly as Jim said, we've got a strong process in place around implementation administration of pricing that that we're going to continue to follow.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Yes, and I'd like to summarize that and talk about pricing approach in seed you know being earnings positive. It's kind of all-inclusive their corn and bean so it's kind of just the full package. Though while we might be pushed in some areas we'll have some opportunities in others.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Good morning, Kevin.

Kevin McCarthy
Analyst,
Vertical Research Partners

Good morning. Two-part question for you on the price costs spread. I guess the first part would be with regard to the incremental cost pressure that you reference, how much of that is occurring in crop protection versus seeds?

And then the second part will be on the crop protection side. What is your outlook for pricing? You use the word agile a few times in describing the disposition. Maybe you could talk through where you're more confident or less confident in obtaining price by region or product line and how we should be thinking about that flowing through in the back half as well as 2022.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Great, Kevin. So, some of the numbers that I was talking about a minute ago answering Vincent's question were really focused on seed cost of sales flow through. So, we do have crop protection costs. I'll ask Dave or Rajan to say a few words about the work that we're doing there as well. But, you've seen good pricing already this year through the first half that's allowed us to go capture price to cover the raw material flow through and again I'll have Dave share some of the specific numbers. And I think you just have to look at that momentum here in 2021 and that track record and know that we're going to continue to be aggressive as we go into 2022 and beyond about how we think about that. So, Dave do you want to talk.

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

Yeah. Maybe I could just talk a little bit about, Jim, about some of the market headwinds, just Kevin to be a little bit of color there. And specifically, I think one of the things you asked was in terms of the incremental $75 million where are we seeing that that's largely in seed kind of breaks down $50 million in seed, $25 million in crop or crop protection. You know and if you look at it sort of overall what we're seeing is a lot of that is freight and logistics. So, if you look at it sort of by element it's freight, logistics and then you get into seed and commodity costs mix license to-date and actually a little bit of a break in the updated numbers in terms of precious metals just because of the actions we've taken operationally with precious metals and the use of palladium. So, I think we've got a good handle on it. I give credit to the teams in terms of looking at early indicators and being on top of this. From my perspective, coming into the organization I think it's one of the things it's actually quite impressive when you look at the results you know against that is the backdrop. Rajan, please talk a little bit about the other piece of Kevin's question.

Rajan Gajaria
Executive Vice President Business Platforms, Corteva, Inc.

Yeah Kevin, just to talk about CP pricing, to talk about what Jim mentioned, the track record. Let's start with pricing for crop protection for the first half here. We had a significant price increase 4%, and to give out example when you look at a product like Spinosyns this is our differentiated product. We actually were a high single-digit on pricing there. So, when we look at our portfolio, the more we shift towards new and differentiated products, we've got around $400 million of growth this year that Jim mentioned. We continue to see the momentum that gives us commercial organization and opportunity to make sure that those products can get the value back, and that is consistent with our philosophy across both seed and crop protection. So, I have confidence on the productivity that was reported by Dave. But I would say that our pricing philosophy continues to be strong and we are delivering strong results in the first half, and we see that continuing next year.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Hi, P.J.

P.J. Juvekar
Analyst, Citi

Yes, good morning. You know it was interesting to hear about your royalty reduction comments you know that begins next year. Can you talk about the bigger impact that happens in 2023 and 2024 in terms of your royalty reduction as well as some royalty income from in-licensing? And then why does it take until the end of the decade to become royalty neutral?

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Great PJ, thanks for the question and you're right, we're starting to see now that flow through of royalty expense reduction through the first half of 2021 royalty expense decreased somewhere between $40 million and $50 million compared to last year. And I'll just point to a couple of messages there. First this was broad based, it's across our whole portfolio of corn and soybeans. And that's a really good step it represents really good progress against that royalty reduction commitment that we've talked about before. As you start to think about how that begins then to roll off over the decade, we've talked before about the effect of the Enlist roll off and that'll really get you about half of that reduction towards that royalty neutrality that we've shared many times before by the middle of the decade. That's just directly tied to the ramp up of the Enlist system as we back down on roundup ready to extend and really start to drive not only the ramp of units of Enlist but also the ramp of the proprietary nature of those units as well.

The second half of the decade that we've talked about before where you really get that second part is really more related to royalty income that is offsetting a residual number of expenses that we're still going to continue to have will still have a few traits that will be like licensing in. So, we offset that. It takes a little while right. When you license a trait to a third party it takes them a while to do their own breeding and integrates the trait into their germplasm and then it takes them a little while to begin ramping those units. And so those royalty incomes, they come in based on units sold not units bred or units licensed. It just takes a little while for that to spool up. And then that just becomes a continued long-term margin opportunity through the remainder of the decade as we get to that ramp up on the first phase of that as Enlist.

P.J. Juvekar
Analyst, Citi

Okay, thank you. And just a quick question on FX, I was looking at your exchange gains and losses table and a net loss of $15 million. Would you consider that reasonable given the size of your company? I know you had a new FX strategy. So how much of your orders are for the upcoming Latin American season are hedged? Just talk a little bit about the new strategy and then so how is it working now?

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

Sure. Yeah P.J. let me just give you a kind of summary there. We're essentially a 100% hedged for the second half of this year. We got some EBITDA exposure even with the hedge. We're assuming, I think I mentioned in my remarks 5.25 is the BRL is the Real assumption for the second half. And basically, we're hedged about 5.50. There's a little bit of exposure between the 5.25 and the 5.50. But really, we think very manageable in the context of the balanced outlook that we've given you for the full year certainly one of the considerations. But it's – we take a sophisticated best-in-class capability and approach that we're taking in terms of that exposure. Thanks for the question.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Good morning, Dave.

David Begleiter Deutsche Bank

Good morning. Thank you, Jim. Jim just on the productivity savings looking at next year should I be equal to above what you realize in this year which is I guess roughly $200 million?

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Yeah, David if you look at this year first, we're on track to deliver the $250 million in productivity savings and those are really helping us offset many of those market driven cost headwinds that we've been talking about. Our productivity strategy is to continue that momentum as we go into 2022. We do have a fairly robust pipeline of initiatives. In crop protection, we're going to continue the focus on footprint rationalizations that we've had out there. We're down some nine manufacturing assets globally. These are large units that take some time to work through supply chain implications and reset those. So, we have a few more of those still to go. Those will continue to show up in 2022.

We're working on much more deeply now into the procurement space as Dave's come in. He's brought some real great insights around our buy and working through understanding how we source intermediates, how we source you know the – our direct and our indirect spends. We've got some work we can do next year on SKU rationalization as we can continue to focus now our portfolio and our pipeline on these new products. We've probably got some older SKUs out there that it'll just help us from an overall cost. And we're beginning to deploy some advanced analytics around understanding our freight and logistics costs. And especially in the year that we kind of come through this year those costs are meaningful and our ability to use some of these advanced tools to improve our efficiency around that are going to be a really important source of productivity. On the seed side, we've been really focused on field productivity. How do we get more seed out of a given acre? And there are some things that we can continue to do to help educate our seed producers to be more productive and effective and spread our fixed costs out over more units. And on top of that we still have some seed conditioning facilities around the world that as we look at where our growth is occurring and where we need those assets, probably have some additional reductions. I think we're down 34% in seed assets to date since we merged, that's a big number, but there are still a few more.

And then finally I've always you know been a person focused on inventory and write downs around making sure that we produce the seed that we need for a season, but don't produce too much when you wind up writing off some of that. So, I really like the list that we have and you know I think you'll continue to see really good flow through into 2022. What else would you add, Dave?

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

We'll provide more specifics as once we get into the 2022 outlook and provide more color around that. So, count on us, I mean I think that's a very important item.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Good morning, Jeff

Jeffrey J. Zekauskas

Hi. Good morning. I have a couple of questions around cash flows. Your cash flow from operation estimate you know it's pretty wide, $1.2 billion to $1.6 billion. Why is it so wide? Why is it so low, Analyst, JPMorgan Securities LLC

relative to your EBITDA of $2.55 billion? That's like 50% or 60% of the EBITDA. On your cash flow statement, it looks like there's about $800 million that went out for pension and OPEP benefits, but your pension line just went down by about $400 million. Can you explain the cash flow constellation? What normally should be your ratio of operating cash flow to EBITDA?

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

Yeah, it's a really good question and it gets a bit confusing because you may recall we did a fairly significant change in our OPEP provision at the end of 2020 basically moving much closer if you will to market in terms of in terms of OPEC. And as a result of that there's a flow through of an accounting entry that we've made at the end of 2020 that really affects the cash from operations presentation in the financials. So, that's number one and we can explain more that offline if you'd like to go through right now in more detail. I think the important thing you talked about which is really key one is just the range estimate that we're giving and the level of that range estimate in terms of cash from operations for 2021. It's reflective of a couple of things, number one, 2020 was really in many respects anomalous in terms of both cash collections and prepayment that we got from customers. As a result of that, it's probably on a year-over-year basis somewhere in the neighborhood of about $600 million if you will, pull forward of cash or increase in cash the benefit of 2020. Now we're getting the benefit of that in 2021 because that's really helping us returning cash to shareholders. If you look at our net debt, if you will, on a year-over-year basis cash on hand minus debt balance, the numbers are actually quite attractive in terms of what we have there. That's really reflective of that very positive cash that we got at the end of the year. But the big difference when you look at our guide this year versus last year and look at the guide in terms of what you would think of is really that year-over-year change in working capital mostly delivered related to timing prepay as well as collections. The other part is building working capital right now. We're building working capital as part of the investment for growth. We're doing at advance of what we see as a strong continued season growth LATAM, Europe, elsewhere. And the other thing I would just add is the improvement we're seeing in operating working capital turns. So, we've got the improvement of DSO, improvement in days sales and we're really tracking that very closely. So, we're on top of this and feel good about this. I understand the year-over-year difference that you're looking at.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

All right. Thank you. And then quickly for my follow up when you look at herbicides, fungicides, insecticides is there a meaningful difference in operating margin between those three subdivisions or are they all the same?

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Great Jeff. Clearly as our pipeline begins to deliver and we're driving newer classes of chemistry we're seeing some nice margin lift in our insecticides portfolio which is benefiting from products like Isoclast and in herbicides as we've launched Rinskor, as we've launched Arylex. And as we continue to trim and frozen some of those old industries like we talk to you about late last year we exit a few of those older products. Rajan, do you want to provide a little higher-level summary there a little more detail there.

Rajan Gajaria
Executive Vice President Business Platforms, Corteva, Inc.

Yeah, Jim you are spot on. I think the biggest difference is not between the indications but it is about the newness of the technology. So, there is a lot of herbicides which would be "commodity" type of businesses and the margin there would be lower than the new products. With the new herbicides like Jim mentioned, Arylex and Rinskor are some examples. Their margin would be as high as what differentiated insecticide would be. But just the fact that there is a lot more herbicides which would be more commodity based, it might feel like the margins are lower in herbicides. So typically, across the industry you would say that insecticides and fungicides have higher margin than herbicides, but that changes when you launch new products.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Good morning, Arun.

Arun Viswanathan
Analyst, RBC Capital Markets

Good morning. Thanks for taking my question. Just wanted to build on some of the drivers for next year. So, you mentioned price is probably going to be incrementally better than cost assuming inflation is ultimately stabilized here. And you have the productivity as well and you have that new product pipeline. I would imagine acreage also is a positive driver. Could you touch on how we should start thinking about 2022 if at all possible? Thanks.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Yeah, I think you've hit those right. We've talked about price being an improvement. We talked about our new product sales growth. We updated our new product revenue in 2021, we previously thought we had about $300 million of incremental year-over-year revenue from that pipeline. We updated that today that it's going to look like more like $400 million in 2021. We'll keep carrying that momentum forward. I think you characterized it right, the market will be a supporter of growth going forward. We'd expect the overall market to be up 3% to 3.5%. And you mentioned acres and we're watching that very, very closely. We would expect to see especially Brazil planted area could be up in that 4% to 5% range, you know the demand for Brazil beans and also corn is really strong and growers have a lot of good resources today, a lot of good cash. They're investing in their operations especially in that premium market where we're really strong from a technology perspective. So, acres in Brazil will be one of those drivers. And then I think in the United States, we could see another modest increase in total both US corn and soybean acreage possible going into 2022. Now I'm not talking about $5 million or anything like that, it could be a $1 million here or $1 million there, but I think the US market for 2022 is setup to also be pretty strong acre line.

Arun Viswanathan
Analyst, RBC Capital Markets

Great, thanks. Just as a quick follow-up on the raw material side, have you guys looked into any strategic sourcing alternatives. I know that there's some issues on the chlorine side, but what can you share as far as you know raw materials and how those should evolve over the next couple of periods?

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Yeah, I'll have Rajan share some of the specifics. I just want to acknowledge the agility and the capability of our supply chain team through this year and so far, as we as we came into late 2020, we saw these headwinds coming. You know we, we shared a lot of that with you as we set our guide for 2021. And we put our teams you know hotly focused on the agility of how we would alter supply chains, how would we make sure that we were understanding where we were going to be tied and get out ahead of some of these logistics. I think about what's going on in Brazil right now, we're a month or two earlier in our logistical supply chains of getting material to Brazil than we ever have been. And I think it's just a real testament to how quickly this team pivoted. But do you talk about some of the specific materials?

Rajan Gajaria
Executive Vice President, Corteva, Inc.

Absolutely, Jim. Arun I just wanted to share two examples to reinforce what Jim said and these examples will prove that it's an ongoing process. But the first one that comes to mind is precious metals. So, we use that in a lot of our key products manufacturing. And we were working rhodium and when we saw the prices of rhodium beginning to go through the roof, our technical teams worked very closely and made a shift to the catalysts be used to Palladium. So that's an example and that's really helped us not only make sure that we have reliable supply and products, but also managed cost. Another example is in the broad category of coformulants. We've had some coformulants which essentially were a real challenge because of the Texas freeze and our teams pivoted, have made some significant changes and ensured that there was no disruption of supply. So, a short answer, yes absolutely looking at that but those were two specific examples.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

I think we've got good visibility, Arun, as we're building our plan for 2022 we're going to continue to drive productivity to stay out ahead of a number of those. And as I said before. we've got that pricing lever well at hand as well to make sure we're covering these costs as they come.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Good morning John.

John Roberts
Analyst, UBS

Thanks, Good morning.
Jim, it's a little early to wish you well in your retirement at year-end but I wish you well. But could you give us an update on the succession process. And do you think you'll be introducing your successor on the next call?

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Great, John. Thanks for those comments. And look what I can say right now is I'm 100% focused here and, in the role, and we're continuing to drive the business of working with my team. We're very solidly focused on delivering 2021. I'm committed to working hard to make sure that we're setting up a really strong start for 2022 and my job right now is supporting this organization through that transition. This team is well-positioned to continue to drive the business forward and I think what we've just delivered here in our first half is a good indication of that. But the strategy is on track that we're accelerating the penetration of some of the new technologies and that as David shared, we've got a great handle now on our capital allocation model. So, I'll admit it's a little bit sooner than I had expected but if a change was going to happen, it needed to happen when the organization was really hitting on all cylinders. So, I couldn't be more proud and thankful of the team and how they remained really focused. The Board is driving that succession process and there's not much I can comment on today about in terms of timing or possible candidates. I know the Board remains very focused on identifying the right talent to help carry forward Corteva's success. And until then, I'm here extremely focused on making sure that we don't miss a beat.

Jeffrey Rudolph
Investor Relations Leader, Corteva, Inc.

We thank you for joining our call today and your interest in Corteva and we hope you have a great day. Thanks again.

James C. Collins, Jr.
Chief Executive Officer & Director, Corteva, Inc.

Thanks everybody.