Corteva Agriscience 1Q 2020 Earnings Conference Call Transcript

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9:00 a.m. ET

Operator

Please stand by. We're about to begin. Good day, and welcome to the Corteva Q1 Earnings conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Megan Britt. Please go ahead ma'am.

Megan Britt
Investor Relations Director

Thank you. Good morning and welcome to the First Quarter 2020 Earnings conference call for Corteva. I'm pleased to be joined today by Jim Collins, Chief Executive Officer; Tim Glenn, Executive Vice President and Chief Commercial Officer; Rajan Gajaria, Executive Vice President of Business Platforms; and Greg Friedman, Executive Vice President and Chief Financial Officer.

We have prepared presentation slides to supplement our comments during this call, which are posted on the Investor Relations section of the Corteva Web site, and through the link to our Webcast.

During this call we will make forward-looking statements regarding our expectations for the future. Slides 2 and 3 of our Earnings Release contain our forward-looking statement disclaimers.

All statements that address expectations or projections about the future are forward-looking statements. These statements reflect our current expectations but are not guarantees of future performance. And are subject to risk and uncertainty regarding assumptions.

Our SEC filings provide discussion of some of the factors that could cause material differences in our actual results. We provide a pro forma basis discussion in our Earnings Release and slides. Unless otherwise specified, all historical financial measures presented today exclude significant items which can be found in the schedules that accompany our Earnings Release.

We will also refer to non-GAAP measures. Our reconciliations to the most directly comparable GAAP financial measure, where available, is provided in our Earnings Release and on our Web site. It is now my pleasure to turn the call over to Jim.

Jim Collins
Chief Executive Officer

Thank you, Megan. And thank you and welcome to participants that are joining this call. Before turning to our normal financial and strategic reporting for the quarter, I wanted to share some thoughts on our current situation.

Every member of our Global Team has been tasked to overcome new challenges due to the global health crisis caused by COVID-19. I am completely in awe of how agile and resilient our team has been through this crisis. And I'm inspired by how we have leveraged our collective strengths to support our customers and our communities.

One of our defining values is to live safely. Our crisis response started with ensuring the safety and security of our global team. In January we activated a comprehensive crisis management effort. And by mid-March, set new policies taking more than 50% of our organization to a work-from-home model. Canceling travel and in-person meetings, ensuring our essential site personnel and field teams were properly equipped, and taking active strides to support every employee.

I'm exceptionally proud of the resiliency of our organization. And I'm committed to keeping our team healthy, motivated, and intact.

From a business continuity standpoint, as a reflection of our critical role in the global food supply, our operations were deemed essential. We leveraged our historical investments and supply chain resiliency and regional production assets to ensure that we could provide reliable product supply for our customers by quickly pivoting to alternative supply sources when disruptions emerged.

To ensure the health and safety of our customers, we have migrated many field sales in agronomic service activities, normally done in person, to virtual or remote means. And have quickly installed contactless procedures to facilitate our physical product deliveries.

We are leaning harder on the digital sales enablement tools that we have in place. Taking greater leverage on investments made in those capabilities in the past.

Finally, we are proactively seeking opportunities to partner with society to devise solutions to mitigate the impacts of this crisis and facilitate a global restart. We are taking actions locally, in communities where we operate to provide support in ways that underpin food security. We are also ready to put our innovation assets to work to become part of the solution to this crisis.

Most recently we announced our partnership with the MercyOne Hospital System in Iowa to perform COVID-19 testing. We have some of the most advanced genetic sequencing capabilities in the world and are leveraging those assets to support our communities.

We've responded aggressively to this current situation. As a result of our combined actions, I am confident that our team, our operations, and our communities will emerge stronger from this crisis.

So moving to slide 5, we show our key performance indicators for the quarter. Net sales on a reported basis increased 16% versus the prior year. Improvement was driven by early Seed demand in North America and Europe, favorable weather, and strong operational execution.

Currency, particularly in Brazil and Europe, was a 3% headwind. Portfolio represents a 1% hit in the quarter. On an organic basis, net sales increased 20% with double-digit increases in both reporting segments and across all regions.

In Seed, organic sales were up 27% on early demand from favorable weather. The anticipated North American acreage rebound, and improved price, demonstrating the strength of our pipeline, particularly our Qrome and PowerCore Ultra corn products.

In Crop Protection, organic sales increased 10%, supported by continued growth in new products, notably Arylex herbicide, and Isoclast insecticide.

Operating EBITDA increased 53%. And operating EBITDA margin improved more than 450 basis points for the quarter.

In Seed, price and volume gains in North America and Europe drove margin expansion. In Crop Protection, new product sales, merger cost synergies and productivity improvements contributed to gains.

SG&A as a percent of net sales decreased by approximately 260 basis points in the quarter. R&D costs declined 6%. These improvements reflect the benefit of cost synergies, productivity, and ongoing efforts to drive spending efficiencies. Overall, these indicators show building market momentum for our new products, supported by strong regional execution that capitalized on favorable weather conditions, and a resilient supply chain to overcome challenges related to COVID-19.

We delivered on our cost synergy commitments and intensified our productivity and spending actions to create operating EBITDA expansion in the quarter,

Now we made substantial progress delivering on our strategy. I want to underscore that our performance during this period demonstrates operational excellence, resiliency, and our capacity to adapt and deliver.

Slide 6 outlines our five priorities for shareholder value creation. And we made progress on each of these. From a cultural standpoint, we have increased our focus on instilling an owner mindset to reduce spending, and support cash preservation. Now we are taking additional decisive and prudent actions like delaying non-essential hiring, and dramatically reducing spending to drive further operating leverage.

Additionally, we are also focused on working capital management as a driver of cash preservation. And have a cross-functional Cash Action Team in place. Diligence on costs and cash will reinforce our inherent operational defensiveness during this crisis.

We are also working on taking additional organizational actions to assure we restart strong. Notably, we recently announced two key executive changes.

Dr. Sam Eathington has been named as our Senior Vice President and Chief Technology Officer, succeeding Neal Gutterson following his announced retirement. Sam will lead our Global R&D organization.

Anne Alonzo has been named our Senior Vice President of External Affairs and Chief Sustainability Officer and is filling an open role that will help us further our sustainability agenda. We are excited to have these talented leaders join the Corteva family.

Moving to Capital Allocation, I'll highlight some actions that we have taken that positively impact our balance sheet. We have a strong balance sheet and liquidity position which includes $6 billion in credit facilities, and approximately $2 billion in cash and cash equivalents.

We are evaluating further cost-effective approaches to both strengthen our liquidity and to address our longer-term funding requirements associated with our primary U.S. Pension Plan.

In terms of returning cash to shareholders, we recently declared our second quarterly dividend for the year, up 13 cents per share. We have also acted on share repurchases this quarter, with approximately $50 million repurchased.

On our priority related to developing innovative solutions, Corteva recently announced the first product registrations for Inatreq Active in Europe, which adds to a series of early registrations. The favorable environmental profile of our newest technology is helping to accelerate the speed of new Crop Protection product introductions to the market.

In Seed, increased adoption of new technology, including Qrome and PowerCore Ultra, enabled Corteva to gain momentum in North America and Latin America, despite a competitive and challenging environment.

On our priority around best in class cost structure, we delivered approximately $70 million in cost synergies in the quarter. And remain on track to deliver $230 million in combined merger cost synergies and productivity savings by the end of the year. This was a large contributor to the over 450 basis point margin expansion in the quarter.

Finally, on above-market growth in the quarter, Pioneer seed corn deliveries were up approximately 60% versus the same period last year. And corn price was up 4% globally. Both are strong indicators of our market momentum.

I'll now hand the call over to Tim to provide some details on our commercial performance.

Tim Glenn
EVP & Chief
Commercial Officer

Thanks, Jim. Starting with slide 7, I'll provide details on how our teams around the world delivered for our customers this quarter.

In North America volumes increased 26% compared to prior year. Improved weather over the last year has enabled farmers to get into the field on time, and in some cases, a little early.

In Crop Protection, expectations for improved spread application growth increased volume, led by Enlist herbicide.

In Seed, corn deliveries were up due to the recovery of plant area. And even in a challenging environment, our price per value strategy is working. Adoption of recently launched technologies including Qrome corn seed, and Lumialza seed treatment drove price increases during the quarter.

Turning to Europe, the Middle East, and Africa, organic sales increased 11% versus the prior year. We delivered volume and pricing gains during the quarter, as a strong start to the season drove demand. These increases were bolstered by an escalating situation with COVID-19 related concerns, which created a sense of urgency in some customers.

The rapid and efficient responses from our teams demonstrated, once again, solid execution in a very challenging time. This responsiveness also served to reinforce the advantages of the route to market changes we made last year. Together, these helped us to get supply to farmers in a timely manner.

Crop Protection volume growth was driven by strong demand for new products such as Arylex and Rinskor herbicide.

In Latin America, our pipeline continues to deliver. Organic sales were up 30% in the region, compared to the first quarter of 2019. Strong execution locally and recent Crop Protection and Seed technology launches, allowed us to achieve double-digit volume and price increases, even in the face of a significant currency headwind.

Seed gains were driven by higher demand, due primarily to a more normalized Safrinha season, and were supported by improved mix with recent launches such as PowerCore Ultra.

In Crop Protection, volume and price gains reflected the ramp-up of new technologies such as Isoclast insecticide.

And finally, in Asia Pacific, our teams took steps to largely mitigate impact related to the COVID-19 crisis, resulting in an organic sales increase of 10% versus prior year. Here our teams navigated external complexities to get products in customer's hands.

The most important takeaway is that our teams around the globe stepped up. They adapted, they acted quickly, and they stayed agile.

Turning to slide 8, let's take a look at the pace of seed deliveries in the U.S. through April. Corn deliveries to farmers are up significantly compared to this time last year. And this is directly aligned to what we're seeing with planting progress.

The latest USDA progress report indicates we have 51% of corn planted, compared to about 21% a year ago, and a five-year average of 39%. So a strong start to the year with weather clearly a source of momentum versus what we were seeing a year ago.

In March the USDA issued prospective planting which indicated 97 million acres of corn. With the recent softening of commodity prices, particularly corn, there is a likelihood that we could see that corn number come down. It's still early to be certain on exact acreage. But from what we're seeing and hearing from our customers, we still expect to see a strong crop this year, with at least 95 million acres being planted.

We're also seeing solid signals of a rebound in soybeans with strong early Seed deliveries. Our full launch of Enlist E3 soybeans is on track. We're seeing solid demand from our growers as they prioritize choice in the marketplace, and we continue to see Enlist soybeans make up about 20% of the U.S. soybean market for 2020.

We're seeing high levels of soybean price competitiveness in the market. However, our teams are executing with strong internal pricing discipline. We originally estimated pricing would be down mid-single digits for U.S. soybean. However, late early indication is that we're trending more favorably than that estimate.

Currency is another area where we're focused as we look to the second quarter and the second half of 2020. The U.S. dollar continues to strengthen. And with this, we're seeing continued devaluation of global currencies, notably the Brazilian Real.

While we effectively offset currency headwinds in Latin America in the first quarter with pricing and mix improvement, we're still evaluating additional strategies to address what we see as an ongoing currency headwind. But we'll be challenged to fully offset.

While we feel good about the strong execution in the marketplace, and the value our technology is continuing to deliver for farmers and for Corteva, we're keeping a very close eye on how things are evolving. We're putting the right plans in place to control what we can against this backdrop.

We will continue to focus on strong demand creation, disciplined internal price management, and aggressive cost management. I'll now turn it over to Rajan to review segment performance.

Rajan Gajaria
EVP, Business Platforms

Thank you, Tim. Turning to slide 9, highlighting the performance for first quarter in both our Crop Protection and Seed segments.

In Crop Protection, organic net sales has increased 10% from the prior year, largely due to the growth of new and differentiated products. For the quarter, new product sales were approximately $180 million, about $70 million better than prior year. This was led by continued penetration of products such as Arylex and Enlist herbicides, and Isoclast insecticide.

For Spinosyns, we continue to see strong demand for this differentiated insecticide with volumes up 8% over prior year. Crop Protection operating EBITDA was $238 million, an 8% improvement over prior year, and 50 basis point improvement in margin.

We are tracing our synergies and productivity to the bottom line which are partially offset by higher input costs of input materials and favorable currency, and portfolio impact.

The first quarter is a heavy North America quarter with more than 30% of total Crop Protection sales, which tends to be more concentrated in non-differentiated products, which are generally lower margins.

Moving to Seed, organic net sales were up 27% on strong volume improvements from early deliveries in North America as a result of favorable weather and anticipated recovery in planted area.

Penetration of new products like Qrome in North America, and PowerCore Ultra in Latin America, drove improved pricing compared to prior year.

Seed operating EBITDA was $581 million, a $256 million improvement over prior year, and margin improvement of greater than 700 basis points. The significant improvement is predominantly due to U.S. corn volume, given the strong margin profile.

U.S. corn sales were 40% of total Seed sales in the quarter. In addition, operating EBITDA benefited from the continued penetration of new products in the quarter, and pricing gains we recognized on those products.

Turning now to slide 10 for a closer look at how the strategic design of our supply chain is proving to be resilient coming into the global crisis.

Stepping back a bit, when we designed the supply chain for Corteva, we made certain that flexibility and agility in supply were at the foundation of our strategy. We were successful in implementing the structure which allowed Corteva to enter this crisis in a very strong position.

In the quarter the industry observed supply outages in many geographies including China and India due to the COVID-19 restrictions. While many companies were impacted, we experienced minimal disruption, given our supply chain design.

Specifically, more than 80% of our total Crop Protection sales are supported by multi-source supply resiliency, including approximately 65% for the U.S. based source. This regulatory and source flexibility allows us to be proactive in not only how we think about sourcing product to meet customer demand, but also to optimize our supply and limit our risk for outages in the chain.

In addition to this critical resiliency design element, we also have staged our formulation and packaging plants which produced our final product as close to the end-use market as possible, to be responsive to shifts in demand. This element, along with the broad logistics supply base and strategic inventories all along the supply chain, provides additional agility in times of disruption.

Another example of this resiliency is in Seed where North America and Europe corn deliveries increased by double-digits in the quarter compared to prior year. With that, I'll turn the call over to Greg who will provide details on our financial position.

Greg Friedman
EVP & Chief Financial Officer

Thank you, Rajan. Turning now to slide 11, I'll provide more perspective on the strength of Corteva's balance sheet and access to liquidity, as well as, share some cash preservation actions we are taking during this crisis.

Our liquidity position starts with an optimized capital structure and a strong balance sheet. As a financial policy, we aim to maintain an A-minus credit rating to support our customer's financing program which provides a competitive advantage in the marketplace and our seasonal working capital needs.

We rely on a $5 billion commercial paper program to fund our working capital needs in a cost-effective way. commercial paper is just one of our intra-year tools in funding working capital. We have access to $6 billion in revolving credit facilities to backstop this program. Along with a $1.3 billion repurchase facility that we renew annually.

In total, we have approximately $8 billion in liquidity, including the two $2 billion in cash and cash equivalents we have on our balance sheet. During the quarter we recognize periodic tightness in commercial paper markets as a result of the global crisis.

Although our ability to access liquidity in the market was not shut, we did experience dislocation in rates and desired maturities that were not optimal for our needs. This led us to draw down $500 million on our credit facilities in the quarter. This illustrated how the tools in our liquidity structure are effective.

I'm very confident in our liquidity position today, despite the global crisis and the impacts that it is creating on markets. However, given the uncertainties, we are taking prudent actions to preserve cash. It starts with working capital, including driving better productivity in how we use our balance sheet to support our customers.

This includes tighter risk management of the inventory production, SKU optimization, and supply chain effectiveness to improve our inventory position. Additionally, we are working closely with customers to manage collections and drive down days sales outstanding, and past dues. And we're seeing good progress here.

Next is cash earnings and limiting spending to maximize our cash savings for the period. We are taking actions to evaluate R&D investments and align those investments with near-term commitments and returns. But are not sacrificing investments for above-market accretive growth.

In addition, we now expect that capital expenditures will be approximately $500 million for the year, the low end of our prior guidance. As the organization rationalizes capital spend with cash requirements and near-term commitments. These actions on cash conservation will continue to bolster our already strong balance sheet.

Moving to a discussion of our Outlook on slide 12. We are suspending our full-year guidance due to the global COVID-19 crisis which is creating significant uncertainty for global markets. As an organization, the environment is changing daily as this crisis unfolds. Creating impacts on our business that we are unable to quantify today.

There are several key areas that we are monitoring that will ultimately impact our full-year financial results. Given our strong execution in the quarter, and heightened visibility on the progress of the Northern Hemisphere growing season, I'll provide some observations on the first half.

As you know, most of our full-year operating EBITDA is recognized in the first half. In terms of top-line growth for the half, it is led by the market rebound in North America, and the expectation to see a combined 13 million additional acres between corn and soybeans, with about 40% going to corn.

We are monitoring what ultimately gets planted this season, given recent softening in commodity price levels. We have had good visibility on pricing at this point for the half. And are confident that we will deliver a low single-digit price improvement in corn, globally.

For soybeans, we have previously said we expected price to be down around $50 million for the full year. On the basis of on recent soybean deliveries, we are trending favorably to the estimate for the first half and expect that U.S. soybean prices will likely be down low- single digits.

New product sales in Crop Protection are trending in line with prior expectations. And we would expect first-half sales from new products to be up approximately $120 million, excluding currency. Overall, organic growth in the first half is estimated to be approximately 6%.

Looking at currency, we are seeing significant disruptions in global currency. Specifically, the Brazilian Real. When we issued guidance in January, we expected to use a combination of pricing and financial hedging to mitigate any currency headwinds, assuming a BRL to USD exchange rate of 4.25. In April the market observed rates that were, in some cases, 30% above our assumption.

Our teams are focused on executing mitigation efforts, including pricing actions, spending reductions, and implementing financial hedging tools. However, given the extent of currency volatility so far this year, the full-year implications are difficult to forecast. For the half, we expect an approximate $150 million of earnings headwinds from currency.

Turning to cost. For the year, we remain committed on the execution and realization of our synergy and productivity commitments and would expect to recognize approximately $115 million in the first half. For the most part, our cost of goods headwinds are playing out as expected, with an estimated $150 million impact for the year from increased unit costs due to lower corn yield and higher soybean royalty costs. For the half, we expect to see about 75% of this headwind in our results.

In addition to our merger-related synergies and productivity actions, we are initiating targeted spending actions across the entire organization. This is to both preserve cash and create more resiliency in our results. Through these actions we expect to achieve annualized savings of approximately $100 million, partially offsetting higher commissions and ERP costs.

For the first half, we would expect roughly a third of those savings to be realized. There are more details on first half indicators in the appendix, for reference. We will provide updates on key second half indicators, most notably currency and 2021 corn acreage expectations throughout the year.

I'll now turn the call back to Jim for some final comments.

Jim Collins
Chief Executive Officer

Thanks, Greg. The strategy that we have in place is clearly delivering results. While we are in a crisis, we are not swayed from our purpose, to enrich the lives of producers and consumers.

In light of the current environment, this purpose has been endowed by a new sense of urgency, and an unwavering resolve that is felt across the entire organization. We will do everything in our power to support our global teams, our customers, and our communities to ensure a brighter future awaits on the other side of this challenging time. I'll turn the call back to Megan for our Q&A.

Megan Britt
Investor Relations Director

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

Operator

Thank you. [Operator Instructions] And we'll take our first question from David Begleiter with Deutsche Bank.

David Begleiter
Deutsche Bank AG, Research Division

Hey good morning. Jim and Greg in terms of pulling the full-year guidance I know there's some uncertainty about Q4 results in Brazil in terms of the Real. Have you, when do you expect pricing to potentially offset those FX headwinds, and how much productivity can you get, could you get? So really, you know, what can you offset from the Real in that November/ December timeframe with pricing productivity? Thank you.

Jim Collins
Chief Executive Officer

Great David, thanks for the question. And you're right, the concerns that we have looking into the second half of the year really relate to our Brazil soybean business. And we've had some delays. The growers are right now kind of unwilling to commit to taking some of the early shipments that we have seen in the past. So, we recognize our revenue when we ship seeds so over the next 90 days this whole scenario will really play out as our sales teams are really working in that marketplace to set the prices.

So, one of the great tools that we have is around pricing, and once we price that seed then working with our sales teams and growers to take delivery. As those deliveries get delayed, sometimes in October or November, that's really the window that we face the currency exposure because we've set an invoice, we've got a price to a grower, but we can't recognize that revenue until we deliver it much later in the year. So we're evaluating other tools that we would have available, different hedging tools, and other tools. And maybe I'll ask Greg to say a few words about how we're approaching that part of the answer.

Greg Friedman
EVP & Chief Financial Officer

Yes. Thanks, David – and thanks, Jim. There are a couple other things I'm going to add here. We do have some natural hedges with respect to the local seed production that we do in each of our regions, as well as our formulation and packaging activities that we have within the region, so that is a bit of a natural hedge. And then once we are able to obtain the commitments over the next 90 days from our customers to take product in the fourth quarter, that's when we'll look at and evaluate mitigation tools and activities as Jim mentioned.

Operator

And next we move to Vincent Andrews with Morgan Stanley.

Vincent Andrews
Morgan Stanley Research Division

Thanks and good morning everyone. I'm looking at slides 14 and 15 here in Latin America, and I'm just trying to understand the difference between Crop Protection and Seed in terms of, you know, 6% price versus negative 13% currency in Crop Protection at 16% pricing, negative 9% currency in Seed so what's the mix effect there? Why are the currency numbers so different first of all? And then why were you able to achieve so much price in Seed versus Crop Protection?

Jim Collins
Chief Executive Officer

Yes. Great Vincent. Thanks for the question. Clearly have a number of effects going on here. Some of this is related to new products. Strong demand for PowerCore Ultra, that allows us to drive stronger pricing based on product performance. Then we also have the new Crop Protection portfolio products that are launching – Isoclast new insecticide that is doing quite well. So we get a mix effect associated with that as well. Tim, what else would you add?

Tim Glenn
EVP & Chief Commercial Officer

No Jim. I think you touched on the big points. I mean and see we - we're getting a tremendous benefit from it and new technology adoption and that's very much having a positive impact on our results this year. Then we've got the natural benefit of being able to produce locally as well that gives us a little bit of a hedge against currency.

Jim Collins
Chief Executive Officer

All right, thanks Vincent.

Operator

And next, we move to Jonas Oxgaard with Bernstein.

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

Good morning, thank you. I was wondering, it looks like your performance this quarter vastly outpaced your main competitor. I realized that some of that might be North America pulling forward and realizing that price is in a different timeframe but even Latin America and Asia you're still outpacing them. Can you give us some highlights of what's going on here? Is it the share gain or is it just recognition?

Jim Collins
Chief Executive Officer

Thanks Jonas, for the question. Part of it is, is as you have said, we deliver seed to growers on pretty much a demand or real-time basis. So in North America, clearly this market this season broke early. So really weather dictates, Mother Nature dictates, kind of the flow of the business. You saw it in one of the charts that Tim Glenn was mentioning where just in the last three days of the quarter we had a $100 million worth of deliveries of seed in North America. So it starts with a story around the season, it has really been favorable and we've gotten off to a great start based on timing.

But then I would add an intensity and a focus that our teams have had around the world. You saw it in our momentum that we carried through the fourth quarter of 2019. It rides on the back of one of the best lineups and portfolios that I've seen in my time with the business, both in seed and crop protection. It was also an intensity and focus on value. And so we had our teams out there, you know, focused on pricing for and delivering on the value equation that we had.

And then as we've said, we've made some key investments in markets around the world and changes to our route to market so that we're more focused and more connected to customers. So in a time like this where this crisis has unfolded, I really believe that business model, that route to market model, is paying off in a huge way because we have a connection and an ability to react, and agility, in a way others go to market may not quite have. Tim, what else would you add to my comments?

Tim Glenn
EVP & Chief Commercial Officer

I think you touched on it. You know, clearly execution and new technology are a big part of what's helped support the performance so far this year. I think the question goes around market share. What I would tell you is I think it's a little bit early to call that right now just because of the uncertainty that we have in terms of what the final planted acres will be. So that'll be something that we're going to continue to watch.

What we felt very good about is our book of business throughout the year. We carried a lot of positive momentum in many markets coming out of 2019 and it set us up for, I think, a really good start to this year. And I would say generally our product performance overall, not just the new product and technologies in Crop Protection, but in terms of Seed performance relative to the competition, has been really outstanding and has been well received in the market. So we feel good about where we're at. It's too early to call but we're anxious to continue to deliver, especially in the Northern hemisphere, as the markets play out here in the second quarter.

Jim Collins
Chief Executive Officer

Thanks, Jonas.

Operator

And next we'll move to Jeff Zekauskas with JP Morgan.

Silke Kueck
JP Morgan Chase & Co., Research Division

Good morning. It's Silke Kueck for Jeff. How are you?

Jim Collins
Chief Executive Officer

Hi, good morning, great.

Silke Kueck
JP Morgan Chase & Co., Research Division

Good morning. In terms of your cost reduction program so you, you know, you achieve like $70 million of the $230 million you're trying to achieve. Can you tell how much of that is sort of savings that are associated with like the shorter-term programs you put in place to cancel travel and delay, non-essential hiring? And of the $230 million that you're targeting this year do you think that any of these savings will be a headwind in 2021 because some of these initiatives are really shorter-term in nature? Thank you.

Jim Collins
Chief Executive Officer

Great question, thanks. And clearly, we really have three things going on with some of the spending reductions we have the continuation of carrying forward on the synergy programs that we've had in place. So, there's a part of that that is still continuing to show up. And we're committed to not only this year, but finishing out that overall commitment next year. So there's some durability in those savings as they roll - as we continue to roll those through.

Then on top of that, there's the new productivity program that we've announced, our Execute to Win initiative that is beginning to drive some cost reductions associated with those productivity areas. And you'll be familiar with some of the announcements that we've made around some additional restructurings globally to take advantage of that.

But then third, there is no doubt that there are cost savings that are beginning to show up here at the end of first quarter and we'd expect to see more in the second quarter that are associated with the crisis, the stance that we've taken around working from home. So travel was much lower. We've certainly taken a very hard look at hiring through the remainder of the year, our marketing, our promotion, and our advertising spend also being affected. Some of those costs you would expect to return a little bit in into the next year. But by and large, you know, we're taking a real critical look at all of these expenses. And I think what we've learned a little bit through this crisis is we found some new ways to work, some new tools to work and I'd expect that many of those costs will be able to count on as continued savings year over year. Greg anything else that you would add to the explanation?

Greg Friedman
EVP & Chief Financial Officer

Yes. I just want to add that I would separate the 200 of synergies, the $30 million of productivity. That was in our plan and we're executing against that plan. This the incremental 100 that Jim talked about, that's as a result of the crisis and specific actions that we're taking that Jim mentioned. We're going to take the opportunity to try to sustain as much of that as possible into '21 and beyond but some of those costs will return as things come back to normal.

Jim Collins
Chief Executive Officer

Thank you.

Operator

We'll move to Joel Jackson with BMO Capital Market.

Joel Jackson
BMO Capital Markets, Equity Research

Hi, good morning. This will be a tough question because it's like a second derivative, but I mean, everyone, investors, are asking about it the last two months. So you go with the 2021 set up and the late 2020 setup. So, you know, if we get trend yield here and it's a good crop in the US and what corn ethanol is doing, you know, maybe you could talk about what you would see here for lower corn acres in 2021 in the US. How that could play out for your Q4 deliveries here and then how that fed into the reason to pull the full-year guidance. Thanks.

Jim Collins
Chief Executive Officer

Great, thanks Joel for the question. So part of the reason is that there is some uncertainty around the setup for 2021 and that has an impact on our fourth quarter shipments of seed. Both the retail brand that we have been shipping we see some, you know, earlier than our normal first quarter shipments that show up in the fourth quarter. And, you know, we're continuing to drive, our product portfolio and performance to try to get some advanced sales out there. So it's the uncertainty of that corn market that we're really watching. You know, you’ve got a few things going on there. You've got the ethanol demand situation, so we'll have a large harvest, we believe coming off this year. And not having that ethanol demand to begin to take up that crop, depresses some commodity prices. On the opposite side of that, we have China and the purchases that they're making. And we're seeing strong indications by China today on what those purchases could look like. When we sit back and take a macro look at it, our assumptions right now is that we could see a 5 to 7 million acre of decline in corn, and it's a little early to call that, but that's our working assumption right now. Tim anything else you would add to that?

Tim Glenn
EVP & Chief Commercial Officer

No. Jim, I think you're spot on. I mean we feel really excited about where we're at right now because we have over half of the US corn crop planted. We've got about a quarter of the soybean crop. But you've got to remember we've got to get this crop harvested and produced throughout the season, plus we've got two seasons in Brazil. We've got a summer corn season and spring season, and then we've got the second safrinha season, all there before we would even plant again in the Northern Hemisphere.

So we've got a long way to go here. But I agree with Jim that the indications would indicate lower corn acres for next year, but it's still within that ten-year range that we've operated in. And we're over a ten-year period we've been in that call it 88 million to 97 million range for corn. So, we're still in that same range, maybe just slightly below average, over that ten-year horizon.

So, we've got a lot in front of us and clearly the economics of the crops are going to dictate, as well as policies are going to have a huge impact, that are going to play out over the course of the year.

Jim Collins
Chief Executive Officer

Yes.

Tim Glenn
EVP & Chief Commercial Officer

Great.

Jim Collins
Chief Executive Officer

Thanks. Thanks, Joel.

Operator

And we'll move on to Adam Samuelson with Goldman Sachs.

Adam Samuelson
Goldman Sachs Group Inc., Research Division

Yes. Thank you. Good morning everyone. I was hoping to get just any incremental color, didn't get a lot of discussion today, and around Enlist and kind of market performance as that's now commercially in the market. And it sounds like you're maybe a little less negative on soy seed pricing than you were in late January so help us think about that. And then a quick clarification, I think there was a comment around North America Crop Protection as being a lower kind of value quarter. So there's a margin mix headwind, but there's also an allusion to strong Enlist sales in the period in North America in the slides so I just want to make sure I heard that right and reconcile that.

Jim Collins
Chief Executive Officer

Great thanks, Adam. Maybe I'll start with a high level. I'll ask Tim to talk a little bit about Enlist and how we're feeling about that line-up and then maybe Rajan can talk a little bit more about the final part of that question. From a pricing perspective, you're right, we're feeling a little bit better about the discipline and the focus that we've had with our soybean prices, in North America especially. We had guided as we entered into 2020 that it would be a competitive market and, by and large, we've seen that. At the same time, we deployed some very strong internal pricing discipline that allowed us to manage our discounting with much tighter controls that we've had in the past. And so, we would estimate as we sit here today, that we'll probably do better in soy pricing than we originally planned. And that's, I think, a real tribute to just the internal discipline that we have out there. We still have a lot of that market ahead of us. Only about 40% of our soybean shipments have been delivered here and that'll play out by March through the rest of the quarter. Do you want to talk a little bit about Enlist, Tim?

Tim Glenn
EVP & Chief Commercial Officer

Yes. On the pricing I just want to close up there saying we knew we were going to go into a really competitive season. You know we had other players in the marketplace indicate that early with how they started the year. So we took extra steps to make sure we had a strong process in place so that we could manage those discounts internally, really just strong internal discipline. And I think why we feel good and why we've been able to reduce what we thought the discounting might be is really, I think, a testament to the strong performance that we got. And the fact that we are carrying over, I think, relative to the competition. We've got the strongest portfolio products in the marketplace and customers are supporting that. So wanted to reinforce that on price and Rajan any comments their on Enlist, why don't you touch that?

Jim Collins
Chief Executive Officer

Enlist as well as our product line-up in the first quarter.

Rajan Gajaria
EVP, Business Platforms

Sure Jeff. Yes, thanks Adam for the question. So related to Enlist, we are on track, actually very excited about the launch here. We had said that about 20% of the market would be Enlist soybeans. We are seeing that we are on track to deliver that as a part of our portfolio and the whole adoption of the technology there too. The demand for Enlist herbicides, which is a precursor to how the soybean shipments to come, also looks very exciting. So, we are on track for delivering against the performance of Enlist. That's true here, obviously, with what we are talking about with Enlist E3 soybeans, but we continue to see good progress on that in cotton across the globe. We have some opportunities which we see with Enlist, so the whole Enlist system is on track to deliver.

Going the question on Crop Protection margin in the first quarter, you're right. We mentioned that if you think about our product mix – a lot of our new product launches – where the margin expansion is there, we start seeing them in the second quarter and in the second half. In the first quarter, it is primarily in North America where we have the herbicide business that we've got good differentiated products, but the margin on those are lower than our new product ramp-up which we have. I would take the opportunity to tell you that we are on track to deliver against our Crop Protection new product launch opportunities that you see there. So just thought I'd reinforce that.

Jim Collins
Chief Executive Officer

Great. Thanks. Thanks, Adam.

Operator

And now we move to John Roberts with UBS.

John Roberts
UBS Investment Bank,
Research Division

Thank you. I believe the bundling incentives are recorded completely in the Crop Protection segment. For the revenue that was involved, how much was the total revenue involved in customers that took advantage of bundling so far? How is that split between Seeds and Crop Protection?

Jim Collins
Chief Executive Officer

Yes. Thanks John for the question and you're right. You do see that in the Crop Protection margin discussion, in addition to the mix that Rajan just mentioned. We do have some of those incentives that show up against Crop Protection revenue here in the first quarter. We'll benefit against that as those products start to flow and growers start to take delivery of those key purchases. We are excited about the opportunity to work with a grower to understand our availability of that Corteva acre we call it. It's a seed opportunity. We get to see treatment opportunity and we get herbicides setup and then as the season unfolds additional insecticides and fungicides in row crops here primarily in North America. We had launched that program last year and saw some initial successes, but we're really excited about some of the early successes we're seeing now as we get into the season. Anything else you would add to that Rajan?

Rajan Gajaria
EVP, Business Platforms

No Jim. I think you covered the main points. The one thing which I would add is that we're really excited about how this program is going to continue to evolve because one of our biggest growth opportunities is to make sure that the Crop Protection business, and how we have the footprint on the Seed side, can come together. Now the way the program has been administered, it did have a pricing impact from grower incentives for the first quarter. But in terms of the overall growth prospects, as this gets rolled out again for the second season, they are very optimistic about how we're going to help both our businesses continue to move forward.

Jim Collins
Chief Executive Officer

Great. Thanks, John.

Operator

And we'll hear from Duffy Fischer with Barclays next.

Duffy Fischer
Barclays Bank PLC, Research Division

Yes. Good morning. I was having a hard time just bridging into Q2 because last season was so late, this season was so early, just to get that split, right. But if I take your 6% growth in the first half that would be about an increase of about $550 million year over year for the half. You did that about that exact same number in Q1. So that would lead me to believe that sales in Q2 are flat excluding currency. So, one, is that fair? And two, if that's the level, how should we think about margins this Q2 versus margins last Q2 – again excluding currency.

Jim Collins
Chief Executive Officer

Thanks Duffy. You're right on, kind of, on how those sales are flowing, kind of, year over year. Again, we did carry some good momentum coming out of fourth quarter into first quarter and you see that market recovery that we expected in North America as we saw that 13 million acres of corn come back into planted area. The other thing you have going on is our pipeline. As Rajan mentioned, we start to see some of our newer products showing up more in the second quarter. So Greg, anything else you'd add to the margin question?

Greg Friedman
EVP & Chief Financial Officer

Yes absolutely. As you as take that top-line down to EBITDA there is a currency impact that does translate down to EBITDA as well. So that would be a negative. But as we mentioned earlier, the additional spending actions that we're taking, you know, resulting from COVID-19 working from home, reducing travel, reducing non-essential spend, all of those actions, are going to help us further offset some of that impact as well.

Jim Collins
Chief Executive Officer

Thanks Duffy.

Operator

And next we'll move to P.J. Juvekar with Citi Group.

P.J. Juvekar
Citigroup Inc, Research Division

Yes. Hi. Good morning and good to hear from you. You know, you mentioned a couple of things about increased cost. One was the increased seed cost due to unfavorable yields from last year. So can you talk about that? And the second one was higher royalty payments, probably for Roundup Ready 2 and what was the impact of that? And then, just related to these royalty payments, what's the long term opportunity for Corteva to reduce your payments to Bayer? – and that's one of the key parts of your thesis for many investors, so just can you address that? Thank you very much.

Jim Collins
Chief Executive Officer

Great P.J. Thank you. Yes, we had guided as we built our plan for 2020 that we would have some higher costs related to yields than we saw in 2019. And those are essentially unfolding exactly as we expected that they would. So nothing new there. Those are flowing through about like we thought.

The royalties that you mentioned in our plan for this year, they're about on track with what we expected. We're going to have the units of Roundup Ready 2 Xtend. We had some slight adjustments though. As you know, we made the announcement back in January of our successful science evaluation of the Enlist E3 system and made a commitment to more aggressively launch and ramp up Enlist. And that had a slight effect on our royalty rate as we take up those costs into COGs.

The final part of your question is a good one and I'll start and maybe ask Rajan to say few other words. We know that as we pivot and bring the Enlist trait and convert our portfolio from Roundup Ready 2 Xtend to Enlist E3, that there is a dramatic reduction in the royalty rates that we pay today. It's the timeframe by which we can make that conversion that we're still understanding. But through the mid to late 20s we ought to be able to rotate ourselves completely out of a Roundup Ready 2 Xtend in favor of Enlist. Rajan, anything else you would add to update that?

Rajan Gajaria
EVP, Business Platforms

No. I think that you hit the nail on the head. The one thing to clarify is that the increase is definitely limited only to the Roundup Ready 2 Xtend part of our business. And as that business shrinks you will see that royalty rate change. But we're really excited, P.J., about the whole ramp-up of Enlist and that creates another opportunity for us to get royalty income coming in. And I think at this point of time we mentioned that 20% of the acres are going to be soybean and that in-licensing opportunity also continues to unfold in front of us. So we are on track to deliver.

Jim Collins
Chief Executive Officer

Greg, anything else you'd add on royalty?

Greg Friedman
EVP & Chief Financial Officer

Yes. Just a couple of things. Number one that the Roundup Ready 2 Xtend royalty largely is going to impact the second quarter because our soybeans are typically delivered more into the second quarter. There's only a little bit in the first quarter. So, just from a timing perspective, you know, keep that in mind. Secondarily this increase in royalty rate is a non-cash expense. It's an increase to the cash rate because we're amortizing over a shorter period of time. So it is a non-cash royalty expense.

Jim Collins
Chief Executive Officer

Great. Thanks, P.J.

Operator

And we'll move on to Arun Vishwanathan with RBC Capital Markets.

Arun Vishwanathan
RBC Capital Markets

Good morning. Thanks for taking my question. I hope you're all well. I just wanted to go back to the Outlook for 2020. So arguably FX is definitely a variable and then the back half of the year in Latin America and other regions are also variables. In addition to those two items, I guess, what else would you call out as some things you're kind of particularly watching or particularly have emerged as greater concerns within the last quarter or two? Thanks.

Jim Collins
Chief Executive Officer

Great Arun. Thanks for the question. It really is those. It's two major factors. It's FX rates related to our fourth quarter Brazil business. And, you know, we feel really good about the set-up for that Safrinha market, and our product performance. Both Seed and Crop Protection look really good. So the demand side of that equation we feel good about. It's the FX effect of that 30% of our revenue that we deliver from Brazil in the second half of the year.

The second element is related more to kind of North America demand for our seed shipments in the fourth quarter. As we, you know, begin to take orders from growers we begin to book business and our seasonality has actually, over time, as we've launched our retail brands and done more in retail, we see demand for corn show up in fourth quarter. And we just have some uncertainty. If as Tim mentioned, if we saw 5 million to 7 million acres of corn come out of the market going into next year, still on average about an average season down around that 90 million acres – 88 million to 90 million acres – so it's not a huge downside. It's still more of an average season but it is a change, year over year. And so we want to understand that demand change and that uncertainty before we true-up that guide.

Operator

And our last question today will come from Chris Parkinson with Credit Suisse.

Christopher Parkinson
Credit Suisse AG, Research Division

Great. Thank you very much. Can you just talk a little bit more about your Qrome ramp, just what you're hearing initially from customers and your penetration expectations for this year? And then just over the intermediate term, let's say '21,'22, what's the best way to think about that? Thank you.

Jim Collins
Chief Executive Officer

Great. Thanks Chris. Tim do you want to update on Qrome?

Tim Glenn
EVP & Chief Commercial Officer

Yes. Qrome launch has been very successful. You know, we had talked about essentially converting around 70% of our triple-stack lineup into Qrome this year. And we've successfully been able to do that. So I think what you'll see over the next two years, Chris, is that it basically replaces the other triples and will become the standard product that we offer in that segment across North America. So in terms of contributor to performance, it was a contributor to our first quarter and it'll be contributor to the first half performance, and really helped us capture some price and value in the marketplace in a tough, challenging year. So, we're excited and it has been well received and it'll become our standard going forward.

Jim Collins
Chief Executive Officer

Play it out about like we thought.

Megan Britt
Investor Relations Director

So, with that, I want to thank you for joining the call. We appreciate your interest in Corteva and on behalf of the entire Corteva team, I really wish you good health and safety.

Operator

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