Conference Title: Corteva 3Q22 Earnings call

Date: Friday, 4th November 2022

Operator: Good day, and welcome to the Corteva Third Quarter 2022 Earnings Call. Today's conference is being recorded. At this time I would like to turn the conference over to Kim Booth, Vice President of Investor Relations. Please go ahead.

Kim Booth: Good morning, and welcome to Corteva Third Quarter 2022 Earnings Conference Call. Our prepared remarks today will be led by Chuck Magro, Chief Executive Officer and Dave Anderson, Executive Vice President and Chief Financial Officer. Additionally, Tim Glenn, Executive Vice President, Seed Business Unit, and Robert King, Executive Vice President, Crop Protection Business Unit will join the Q&A session.

We have prepared presentation slides to supplement our remarks during this call, which are posted on the Investor Relations section of the Corteva website and through the link to our webcast.

During this call, we will make forward-looking statements which are our expectations about the future. These statements are based on current expectations and assumptions that are subject to various risks and uncertainties. Our actual results could materially differ from these statements due to these risks and uncertainties, including but not limited to those discussed on this call and in the Risk factors section of our reports filed with the SEC.

We do not undertake any duty to update any forward-looking statements. Please note, in today's presentation we'll be making references to certain non-GAAP financial measures. Reconciliations of the non-GAAP measures can be found in our earnings press release and related schedules, along with our supplemental financial summary slide deck available on our Investor Relations website. It is now my pleasure to turn the call over to Chuck.

Chuck Magro: Thanks, Kim. Good morning, everyone, and thanks for joining us today. There are several key messages and updates we would like to share with you, along with our solid results for the first nine months of the year that demonstrate our strategic plan is really starting to come to life. Last quarter, you will recall, we announced key actions associated with the completion of a comprehensive portfolio review.

These actions include plans to exit non-strategic geographies and product lines, emphasizing a strategy of differentiation to drive our competitive advantages, bringing unique, sustainable ag technology solutions to farmers to bring advancements in global food security, climate change and the energy transition.

Today, we'd like to highlight a few proof points of our immediate execution of that strategy to accelerate performance and growth during the third quarter.

First, let me reiterate that we are committed to disciplined and strategic portfolio management. Prioritizing core markets, products and crops to simplify operations and to focus investment in differentiated and sustainably advantaged solutions. In terms of operational excellence, we are continuously evaluating our business to optimize manufacturing costs and streamline our supply chain. In that regard, we have decided to discontinue all U.S. commercial sunflower seed production servicing Europe by the end of 2022 crop production year. Given our previous announcement to exit Russia as well as various capacity expansions, we now have sufficient capacity to supply our European sunflower commercial seed needs from within the EMEA region.

On the CP side, we announced last month that we signed a definitive agreement to acquire Symborg, a leader in microbiological biological technologies. As we've said before, we will be utilizing M&A to supplement our organic growth by focusing on adjacencies and utilizing it to fill gaps in our portfolio. We are able to accelerate advancements in technology and our speed to market.

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Corteva first collaborated with Symborg to scale up and bring farmers UtrishaN and BlueN in both nutrient efficiency products as part of a distribution agreement between the two companies respected throughout the biologicals industry, Symborg possesses a diversified existing portfolio and emerging bio controls pipeline and a very skilled workforce.

Biologicals are expected to represent about 25% of the crop protection market by 2035. This transaction reaffirms our commitment to biologicals and building a more differentiated and sustainably advantaged portfolio that provides cost effective solutions for farmers, as well as our commitment to forming strategic partnerships to help accelerate innovation and growth.

As it relates to our A.I. portfolio, we sold our methamyl insecticide business outside of Brazil in August. We also made the global business decision to exit commodity glyphosate products, meaning glyphosate, not mixed with other herbicides. Lastly, on an operational front, we've decided to cease production of certain intermediary products at the Pittsburgh, California manufacturing site by the end of 2025, allowing us to streamline and simplify our operations.

These moves enable us to redeploy capital for investment in growth markets to provide innovative and sustainable solutions for farmers.

We also remain very focused on bringing global farmers, differentiated next generation solutions to help them be successful in this volatile and dynamic environment.

In seed, our top tier genetics continue to be in high demand as growers prioritize yields to help offset inflation. In crop protection, new product sales improved by almost 50% compared to prior year. This was led by products like Enlist herbicide, which has more than doubled in sales compared to the same period last year.

The Enlist system continues to gain traction in the market, given its superior performance and grower confidence, delivering approximately $1.1 billion in net sales during the first nine months of the year, an increase of nearly 80% versus the same period last year. We expect 2023 Enlist market penetration in the U.S. to be in the mid 50% range, representing approximately 70% of Corteva line-up. As I've said before, this is a remarkable feat considering this technology has only been in the market for three seasons.

Our refined strategy and putting the farmer first has been quite successful this year. We have delivered double digit sales growth in over 190 basis points of margin improvement so far. As a result of this momentum, we have raised the midpoint of our operating EBITDA guidance and now expect between three and $3.1 billion for the full year outlook, which they will address in greater detail shortly.

Now, let's spend a few minutes on the ag market. On Slide five. Ag fundamentals remain robust with commodity prices above historical averages. We are encouraged by resilient demand as well as healthy farmer income levels and see broad opportunities in both business units as customers drive farm productivity. Farm income levels are expected to remain strong in 2023 following two record setting years. We continue to believe that global grains and oilseeds markets need two consecutive normal crop years to stabilize global supplies, and 2022 is not a year to rebuild stocks.

For the upcoming season we're expecting U.S. planted area to be up slightly with a bias towards corn. Outside of the U.S. market, growth looks strong in key markets like Brazil, where planted area is expected to increase low to mid-single digits. Strong demand combined with tight supply and weather-related reductions in estimated yields, have continued to drive low stocks to use ratios for both corn and soybeans during the 22/23 crop year.

North American harvest is nearly complete for both corn and soybeans, with USDA crop progress in the high seventies for corn in high eighties for soybeans. While yields have been strong in the northern and eastern corn belt, they have been below normal in the western corn belt and plains, where it has been dry. Overall yield estimates by the USDA have been in the low 170s for corn and about 50 for soybeans, keeping crop prices elevated and farmer income strong in 2022 and into 2023.

We'll continue to monitor the ongoing effects of inflation and strengthening U.S. dollar while remaining focused on what we can control with disciplined execution on our refined strategy. We expect price mix and productivity actions to continue to outpace inflationary cost pressures. Given healthy market fundamentals, we believe farmers will continue to have strong margins and liquidity. They will prioritize investments in top tier genetics and crop protection technology to maximize and protect yields.

And with that, let me turn it over to Dave to provide details on our financial performance as well as updates on the outlook.

Dave Anderson: Thanks, Chuck. And welcome, everyone, to the call. Let's start on slide six, which provides the financial results for the quarter and year to date. You can see from the numbers; we had another quarter of strong performance quickly touching on the third quarter. Organic sales increased 22% compared to 2021, with double digit growth in both segments and in all regions. This translated into earnings of 96 million for the quarter, growth of nearly 290%, and margin improvement of more than 550 basis points. So, another quarter of impressive growth and margin expansion.

Now, it's important to note that the third quarter includes some timing benefit from volume that was originally forecasted in the fourth quarter that shifted into the third quarter. This is incorporated in our updated full year guide and the implied fourth quarter that we'll go through in a moment. This guide also includes third quarter performance favorability that lives through for the full year.

Turning to year to date, organic sales grew 16% over prior year with broad based price and volume gains. Global pricing was up 10% through the first nine months, with notable increases in both seed and crop protection. Volume growth in crop protection of 13% was driven by the strength of new products, which delivered more than 470 million of sales growth year over year, an increase of almost 50%.

We delivered approximately 2.85 billion in operating EBITDA for the first nine months, a 23% increase from the same period last year. This is impressive given the continued cost inflation, commodity price and currency volatility, and the war in Ukraine.

Pricing, product mix and productivity more than offset the higher costs incurred, as well as an approximate 270 million currency headwind driven predominantly by European currencies. This earnings improvement translated into more than 190 basis points of margin expansion year over year, reflecting execution, including the portfolio decisions that Chuck referenced earlier.

So, with that, let's go to Slide seven, where you can see the broad-based growth with double digit organic sales gains in every region through the first nine months. In North America, organic sales were up 11%, driven by crop protection on demand for new technology, including Enlist herbicide. Seed volumes were down versus prior year, primarily due to a reduction in U.S. corn acres and supply constraints for canola in Canada. Soybean volumes were up 5% versus prior year, driven by continued penetration of at Enlist. Both segments delivered pricing gains with 6% pricing in seed, 8% in crop protection, more than offsetting higher commodity and input costs. In addition, we're confident that we gained market share in both corn and soybeans in North America.

In Europe, Middle East and Africa, we delivered 21% organic growth compared to prior year, driven by price and volume gains in both segments. Seed pricing increased 12% and helped to mitigate currency impacts. In crop protection demand remains high for new and differentiated products, driving volume growth of 18% through the first nine months.

In Latin America, organic sales increased 24%, with double digit volume and price gains. Pricing increased 14% compared to prior year, driven by our price for value strategy, coupled with increases to offset rising input costs. Seed volumes increased a modest 1% due to tight supply of corn, while crop protection volumes increased 6%, driven by demand for new products.

Asia Pacific organic sales were up 12% over prior year on both volume and price gains. Seed organic sales increased 27% on strong price execution and the recovery of corn planted area. Crop protection volume growth of 2% was again led by demand for new and differentiated products.

Let's now turn to slide eight for a summary of our operating EBITDA performance through the first three quarters. Operating EBITDA increased $540 million to $2.85 billion. And as I covered on the prior slide, strong customer demand drove broad based organic growth with price and volume gains in all regions.

Year to date, we've incurred approximately $830 million of market driven headwinds and other costs driven by higher seed commodity costs, crop protection, raw material costs and freight and logistics. We've delivered approximately $175 million in productivity savings, which helped to partially offset these cost headwinds. We continue to maintain disciplined spending with SG&A down as a percent of sales, more than 200 basis points from the same period last year.

Currency was a $270 million headwind driven primarily by European currencies. Standing back, you can see the organization's ability to meet increased customer demand while effectively

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managing cost headwinds through pricing, product mix and productivity. And again, we believe this performance really differentiates Corteva.

Turning now to Slide nine, I want to take make us several points about the updated outlook for the full year.

With the backdrop of our strong performance through the first nine months, we're affirming our full year revenue guidance to be in the range of $17.2 to $17.5 billion or 11% growth at the midpoint, including approximately 3% headwind from currency. And as Chuck said, ag fundamentals remain strong as we finish out the year. However, we're monitoring supply availability as well as volatility in currency markets.

We're raising the midpoint of our full year operating EBITDA guidance now expected to be in the range of $3 to $3.1 billion or 18% growth at the midpoint. This updated guidance includes an estimated $50 million EBITDA favorability in the third quarter that is expected carry through for the full year. For the full year, high single digit pricing is expected to offset headwinds from higher input costs and currency lower spend driven by cost actions that we discussed, and strong collections resulting in lower bad debt accrual also supports this outlook. The updated earnings guidance translates into approximately 110 basis points of operating EBITDA margin expansion for the year. Again, impressive in this environment.

Our full year EPS guidance remains unchanged at a range of $2.45 to $2.60 per share as higher operating EBITDA is expected to be somewhat offset by higher exchange gain and loss impact.

On free cash flow, we continue to perform well against our working capital metrics, including our days sales outstanding and inventory days supply. DSO continues to improve, reflecting the strength of farmer income as well as customer collections, inventory day sales, or IDS, is trending higher this year.

Given the significant increase in seed cost and the replenishment of crop protection inventory, we're now expecting higher working capital balances in absolute dollars for the year. But working capital to sales relationship is tracking to prior forecast. Our current thinking is that these higher working capital levels will result in free cash flow closer to the lower end of our previous guidance range, or roughly $1 billion free cash flow for the full year 2022.

So, now, let's transition to a discussion on slide ten on the setup for 2023. You can see our initial planning framework. It's intended to provide key assumptions as we begin to transition. We see 2023 as a continuation of the momentum from 2022, while also balancing the uncertainty of the economic environment.

Specifically, given the appreciation of the U.S. dollar in 2022 and continued volatility in foreign exchange markets. We expect additional currency headwinds in 2023. Now, we're going to continue to use financial hedging to mitigate the risks from certain currencies and use local pricing in key markets to offset the impact wherever possible. Nonetheless, we see another year of foreign currency translation headwind in 2023.

While we expect cost inflation levels to begin to moderate over the course of ‘23, we will see cost headwinds in 2023 in both seed and crop protection driven by commodity costs as well as raw materials.

Drought conditions in Latin America earlier this year have put pressure on seed supply in the region. This will be a headwind to our corn volume growth in the first half of 2023, but we expect inventories to recover in the second half of the year.

Our current estimate for U.S. planted area is to be slightly up for the 2023 season, with a slight bias towards corn acres based on the current relative economics for farmers. This is clearly a

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positive for Corteva. In addition, in Latin America, we expect corn planted area to increase low to mid-single digits.

On price for value strategy that continues to be a key lever to offset inflation. Pricing for our yield advantage technology and differentiated solutions is expected to more than offset higher cost of goods sold.

And as Chuck said earlier, we're making progress on our portfolio simplification. Exiting commodity glyphosate products, among other nonstrategic product lines and geographies, will create a headwind to our base business volume growth. However, it will be accretive to margins and the overall impact to operating EBITDA will be positive.

We'll see an estimated $100 million reduction in net royalty expense next year, driven by continued Enlist penetration and the increase of units in our proprietary genetics. Enlist E3 Soybeans will represent approximately 70% of our U.S. soybean sales in 2023, and we expect about 65% of those will be in our own Corteva germplasm. This will support increased overall market penetration of the unless trait and will of course be a direct EBITDA left.

And finally, on our productivity and cost actions, the expected savings from our productivity work and restructuring programs will more than offset the increased investment in R&D for next year.

So, coupled with a strong market outlook and solid grower economics, we believe we're well positioned for another strong performance year.

Let's now go to Slide 11 and just summarize some of the key takeaways. The company has taken very important steps in its strategic roadmap, including portfolio simplification and investing in growth. By exiting non-strategic product lines, we can focus on key markets and provide differentiated solutions to farmers. And with the acquisition of Symborg, we've taken another important step building our Biologicals business. It's clear that our organization is executing well. We're very pleased with the strength of our results through the first three quarters. The strong year to date performance gives us confidence to raise the midpoint of our full year operating EBITA guidance.

And let me just say a few words about capital deployment. As a reminder, we plan to repurchase $1 billion in shares in 2022, with $800 million completed through the third quarter. Since 2019, we've returned more than $3.3 billion of cash to shareholders through dividend and share repurchase, a clear commitment to deliver value to our shareholders.

And finally, we believe that we've continued with its continued favorable momentum. It will carry us into 2023 as we look to continue both performance and growth. So, more to come as we make progress to advance our strategic framework and drive continued operating EBITDA margin expansion. We believe these strategies will further differentiate Corteva and deliver increased value for years to come. And with that, let me turn it back over to Kim.

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

Operator: Thank you. If you wish to ask a question at this time, please press star one on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. We will now take our first question from Vincent Andrews from Morgan Stanley. Please go ahead.

Vincent Andrews: Hi. Thank you. And good morning, everyone. Just wanted to see if you could give us any sense on inflation for next year and both crop chemicals and seed sort of any order of magnitude versus this year that we should start thinking about in the model and maybe more specifically, in crop chemicals. Could you talk about when you think raw material costs will peak and if there's the potential for any deflation at some point in 2023?

Dave Anderson: So. Vincent, this is Dave. Good morning. Thanks for participating. So, let me give you sort of a broad statement and then, Robert, if you'd like to fill in a little bit more on the details on the crop side. Tim, obviously, anything you want to add on the seed side, but broadly, obviously, this year is shaping up to be much larger than anybody ever anticipated.

Right now, if you look at our implied numbers, it's in around, you know, 10%, 10 to 11% on a full year basis in terms of overall cost inflation to include commodity costs as well as input or ingredient costs, freight and logistics. Just incredible. And again, just want to reinforce what we've been able to do this year in terms of execution, pricing, productivity.

But what Tim and Robert combined have been able to do, to be able to deliver the performance for 2023, and specifically, to your question, as we said in our prepared remarks, we anticipate that inflation is going to continue, that it's going to continue to be a headwind.

We are anticipating moderation in the rate of inflation. You know, it'd be too early right now for us to say precisely or even within a kind of a guidance range what that could be, we will provide that together with obviously more details around 2023 when we provide our formal guide. But it will be a moderation of the rate but a continued headwind for us. That's what we're anticipating and that's what we're planning in terms of our execution. Robert, you want to talk about crop?

Robert King: Sure. Thanks, Dave. You know, looking at looking at the crop protection business, you know, the cost inflation supply disruptions continue to be fairly widespread. And as Dave said, at this point, we don't see a whole lot of improvement into 2023, although we're we've learned and we're in a better position to manage those into the future. You know, that said, our track record of pricing our products based on the value that they add to the farmer plus the productivity that I

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would say has been relentless with our teams is more than offsetting the cost increases and will continue to do so.

We fully expect this momentum to carry us into 2023. As Dave said, you know, 2022, we've seen inflation in the low teens but we do expect this to stabilize in the crop protection area as we begin to lap quarters from the higher inflation rates we saw and earlier, it will begin to stabilize a little bit.

But, you know, I want you to take away that we're deploying every tool that we possibly can to manage costs and inflations. And, you know, our most effective tool is technology. And when you begin to look at our technology drives farm productivity, allowing the farmers to make more yield and offset the cost of inputs that they have already coming at them, such as, you know, gas, fuel and fertilizer prices. We do see a continued strong demand for this latest technology that will continue to help the farmers as we move into 2023. And and we think we're in a good position to be able to handle it.

Operator: We will now take our next question from David Begleiter from Deutsche Bank. Please go ahead.

David Begleiter: Thank you. Good morning. Back in September, you gave a three-year EBITDA growth target of 13%. Given the headwinds next year from FX and costs, would it be fair to think about maybe sub 13% growth in 2023 and above that 13% in 2024 and 2025? Is that a decent way to think about the three-year target?

Dave Anderson: So, David, maybe I could start and Chuck, you can add to this. You know, really good question. And just for everybody's benefit, the numbers David's are referencing or, you know, back to our September 13 Investor Day where we said, you know, at the midpoint, 2023 to 2025, looking at about a 5% CAGR on the on the revenue side and around 13% on the EBITDA side. We see right now as we look out to 2023 and I use that term, a balanced framework, but it's a constructive setup, we think.

Robert, you highlighted for crop very well the all the actions that we're taking and what we're anticipating in terms of an overall market, we would think that 2023 would be call it ratable or you know, in a pro rata basis should be an important and relevant contribution to that overall goal. So, we see that as a good setup for the beginning of that three-year period. Chuck, anything you want to add to that?

Chuck Magro: Yeah. David Look, obviously, we're at the point where we're looking pretty deeply at 2023. And let me just give you sort of our current thinking. So, first of all, we think 2023 is going to be a very similar year and set up as 2022 was. And we think Corteva based on some of the early decisions we've made in 2022, we're feeling pretty good about 2023.

I think the bottom line to take away is that we feel that we're on track to deliver that value creation plan that we outlined in in September. Now, there's puts and takes, right? So, the macroeconomic environment, we've talked already about inflation today. We're watching that very carefully. Dave and Robert gave you our view there. The other headwind we clearly see coming at us is global currencies, and Dave can talk more about that. But the ag fundamentals are very constructive.

You know, we've got low inventories below trend yields, high crop pricing. This sets up the ag economy very, very well for 2023. We need rain. So, we're not going to talk too much about the weather today, but North America, Latin America and even Europe, they all need rain. So, assuming that we get some rain over the next several months, we're thinking that the ag economy is quite strong.

And then, for Corteva just to take you back to September, you know, the value creation plan that we put in place within that backdrop of the market context, a lot of those levers are within our control. So, we're going to see the first meaningful step of royalty neutrality in 2023, and we can talk more about that.

We're going to see continued growth in our new CP products. They're adding a lot of value on the farm. We've got the new Spinoza's capacity coming online and there's more portfolio moves that we will announce as we make those decisions all within this context of this this three year journey that we laid out. So, we're feeling pretty good, even though there are some headwinds facing the organization in the industry, but we think we're pretty well positioned.

Operator: We will now take our next question from Joel Jackson from BMO Capital Markets. Please go ahead.

Joel Jackson: Hi. Good morning. There's been some color in the market about Enlist beans and a slightly different shade or color maybe. Maybe a track and maybe a 5% discount for the beans or some elevator's the look of grading, US number one grading. Could you comment on that, the extent of it, what you're doing for it, how much of an impact it brings?

Tim Glenn: Hey, Joel. Good morning. This is Tim. I'll take a shot at this. So, you know, in terms of soybeans in general, farmers can and do see some variation in fields for any kind of soybeans. And the soybean grading process allows for that color variation. You know, variety. The varieties respond differently to the environment. You know, certainly there's a genetic component and other factors play in as well.

You know, in the case of E3 soybeans, the color variation can show up as a light brown shadow on the seed coat on the side of the hull. And the variation is from natural compounds and it's on the seed code and does not impact nutritional composition or quality. You know, we continue to answer questions and inquiries that come up and we're very much connected to processors and end users as well as our channel partners and farmer customers.

Demand for the technology remains strong and farmers continue to get full value from the technology and the grain is accepted in the marketplace. So, there is no widespread discounting on in soybeans. I do want to reinforce that. And clearly, you know, farmers continue to support the technology. The technology will continue to grow. And we're out there and quite active and visible in terms of answering questions or inquiries that may come up.

Operator: We will now take our next question from P.J. Juvekar from Citi. Please go ahead.

PJ Juvekar: Yes. Good morning. I have a question on your decision to exit glyphosate. I would imagine that it's based on how volatile glyphosate is and you're focused on more sustainable products. Maybe you can comment on that when you do have Roundup Ready trade in some of your products. Do you expect that the generics will kind of fill in the gap? And you mentioned $300 million of sales. Is there a EBITDA number associated with that? Thank you.

Chuck Magro: Yeah. P.J., let me give you the overall strategic decision framework we used and then Robert and Tim can talk the specifics around what's in and what's out in that decision and the impact to our seed technology, which will be done, by the way, but they'll cover that in detail.

So, look, we just feel as an organization that we want to tilt our portfolio to solutions that are value added and unique in the marketplace. And so, these decisions are always difficult, but the decision for us is one of just providing very unique, differentiated technology to farmers that create long term value. And that's really the simple part of it.

The other point, though, is we did run this through a financial lens and the cold, hard truth of our glyphosate commodity business is that we don't make a lot of money on it. So, why allocate precious resources to this when we can put it to something else that have much higher margins and move the needle for farmers? So, Tim, why don't you talk about sort of the thinking around seed?

Tim Glenn: Yeah, I mean, in terms of the Roundup ready technology, I mean, it is an integral part of our trade offerings today and will continue to be. So, there's certainly no intent to alter that. And, you know, it remains a technology that's highly valued by our customers and they get great utility from it.

And I think the other thing that plays into it is, as Chuck implied, farmers have a lot of choices in terms of where they source glyphosate. And there was really no, I'd say, direct linkage in terms of what we were supplying on the crop protection side and what we supplied on the seed.

They were very, very, very separate offers and there was no incentive for really for a customer to purchase our glyphosate brand versus any other brand. And so, from a seed standpoint, it's steady as we go, and we'll continue to support the technology across multiple crops.

And then, from the crop protection, just a little more specifics on the glyphosate exit. You know, this really falls into what we shared at our Investor Day back in September, where we talked about one of the key pillars to our strategy is portfolio differentiation. And glyphosate is not one of those that fits that model.

When you look at where we are today, you know, this differentiated portfolio is going to continue to be led by improved market penetration by these new products. And that's going to be a key piece of us as we move forward.

These sales going to be around 2 billion this year, and we expect these to continue to grow in the high teens, low twenties this next year. Glyphosate is part of this exit plan of 20% of our AIs over time. And this is one of the first ones that you see moving up the revenue number of that around 300 this next year is what we'll lose to answer specific question there.

And you know, from a margin standpoint, it's just part of that differentiation driving our margins better. We expect to have a favorable impact to the bottom line because of it.

Operator: We will now take your next question from Christopher Parkinson from Mizuho. Please go ahead.

Christopher Parkinson: Great. Thank you so much. You mentioned a few things that could affect CPC margins heading into 2023 and ultimately, 2024, inclusive of exiting the business. Just a two-part question.

Just the first, is there anything else imminent that you're assessing within the CPC portfolio that would have comparable margins to the glyphosate business or potentially higher?

And then, what's your latest assessment, enthusiasm about some of your newer technologies that have already been launched but seem to be ramping pretty well, whether it's in a truck, icer class, rinse court or so on and so forth. Just if you could just give us some framework on how you're thinking about that heading into 2023. It'd be incredibly helpful. Thank you.

Dave Anderson: Maybe, Robert, I could just do a quick introduction on that for Chris's benefit, I think, number one, to point out what wasn't specific to your question, I think it's important to point out and we referenced that earlier, is that we will have some volume headwind, obviously, in 2023 as a result of these decisions.

The second thing I would mention, while obviously beneficial, as Robert said, to margin and to EBITDA. Second thing I would mention is that we did reference methamyl as well as one of

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those items. It's down the list in terms of significance or size, but it is indicative of what we've done in terms of some of that portfolio of refinement and actions.

And Robert, you want to talk about anything else both on what we're doing refinement wise, but also in terms of growth?

Robert King: Yeah. When you look at back to your question around the new products, you know, we had shared earlier that we have about eight new products out on the market since 2017 and two more to come over the next couple of years. This new technology has a referenced earlier is really being driven by the demand. It's helping the growers and attack challenges that they've not been able to in the past. And so, we expect that to continue as we move forward.

As Dave said, you know, the glyphosate is one of the first ones that are announced and the methamill ex Brazil, outside of Brazil, was the other one that we've announced. We have others that will follow in 2023 that will have similar impacts. Thus, the headwinds that we think we will have on the revenue as we move forward in 2023.

But overall, this is again, this is part of our strategy as we move forward to shift our portfolio, to improve our margins and to get us to the goals that that Chuck laid out for 2025.

Operator: We will now take your next question from Kevin McCarthy from Vertical Research Partners. Please go ahead.

Kevin McCarthy: Yes, good morning, Chuck, back, at your Investor Day, you outlined tremendous growth potential that you see in biologicals. And since then, you announced the Symborg deal. Can you just provide an update on the growth opportunities as you see them today for Corteva in terms of, you know, organic growth and how you think the pipeline of deals could evolve and support your growth in the years to come?

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Chuck Magro: Sure. Good morning, Kevin. So, look, if you step back and you think about the landscape from a crop protection perspective, you can just see that the world is looking for nature based, biological based products to have bio control, bio stimulants, bio nutritional products as part of the overall portfolio.

As we said in September, we don't see this replacing traditional chemistry. So, I want to be clear on that. But by the time we get to 2035, we do believe that the biologicals will be a significant part of the overall CP portfolio, and we're calling it about 25%.

We've got a very robust internal R&D and innovation program around biologicals, and that work is proceeding very well. We're increasing our R&D investments in this area quite rapidly. But as we called out in today's call, but also in September, we also feel that M&A will be an important part of this journey to build a world class biologicals business inside of our CP portfolio.

And the Symborg acquisition was one of the first ones that we've pulled the trigger on. Right now, we do have a portfolio of other opportunities that we're looking at. But if you look at Symborg, you know, they're a leader, a global leader in microbial products. We know the company, we know the products. We've had this distribution agreement I referred to with them. They have phenomenal skill set and they're based in the right part of the world. They're based in Europe, where I think biologicals, the market is going to lead. The European market will lead a biological journey. So, there's a lot to like there.

And, I guess, to answer your question specifically, what's next? I guess, stay tuned. We're going to use M&A to accelerate our R&D innovation and development and to get access to the market. That's how we're going to use M&A.

Now, let me just be clear, though. We do have a phenomenal internal program going on right now. We reviewed the portfolio just a few weeks ago and there's lots of exciting things there which we will share with you over time.

Operator: I'll take our next question from Jeff Zekauskas from J.P. Morgan. Please go ahead.

Jeff Zekauskas: Thanks very much. In seeds, it's relatively easy to have an idea of what pricing will be like for 2023. We look at your seed cards and September and then extrapolate into next year. But how is it best to think about pricing in crop chemicals? Is that something that plays out each quarter or your prices set for next year? Is it easy to estimate? Do you have a view on pricing and crop chemicals in 2023?

Robert King: Jeff, when you think about pricing in crop protection, yeah, you're spot on. It is different from seed, but it's something that that we do plan for. It's not something that we're reacting to, but we plan for into the future. And, you know, when you look at what we've been able to do so far, it's really about the strategy around our differentiated products.

Plus, the adoption that we're seeing by farmers supports this value proposition that we've that we've seen. We don't see that changing as we move into 2023. Our track record of pricing for the products, pricing for value is something that coupled with our relentless productivity, has been able to help us offset the rising inflationary costs from raw materials.

We don't see raw materials slow in this next year or we see them stabilizing, but we see it will continue to increase. And so, we'll have to continue to work on that as well. But as you look at the year, you know, we're up 13% on pricing on a year over year basis, and we expect that momentum to carry us through into next year as well.

Specific to your question around how do you think about it? There's three buckets that we think about. When it began to talk about pricing in crop protection, its differentiated products, its next best alternative products and it's those that are close, generic, you know, the differentiated products is one that is really a quarter of our strategy.

And that's where we're shifting the portfolio towards because this is a non-elastic less price sensitive because this is a true value add to the to the grower. It actually helps improve the yield on a on a per acre basis. The next best alternative is once we began to think about there are a few more substitutes available than the differentiated.

So, it's a little bit more elastic, but it's still far from the generics, which gets us back to that close generic those we're going to have to manage with the market and the commodity price nature there.

But overall, our increase in differentiated products is one that over time will put us in a good position as it comes to how we extract value from the market.

And as Chuck talked about in biologicals earlier, this also plays out in our overall shift of this portfolio to become more differentiated and to get ready for the future. So, I hope that helps.

Operator: We'll take our next question from Steve Byrne from Bank of America. Please go ahead.

Steve Byrne: Yes. Thank you. So, if I heard you right, Chuck, you're looking for the Enlist penetration in 2023 on the soybean seed to be somewhere in the mid-fifties with 70% of your own lineup.

So, that was, the math on that would suggest there might be 30% of the Enlist seeds out there that are sold that are through some other through other seed companies.

Can you comment on how much of that other 30% will generate a treat fee for Corteva? And could some of it generate a a germplasm royalty to you as you start to roll out your own licensing of pioneer genetics through GDM?

Chuck Magro: Let Tim walk you through sort of our thinking on Enlist market growth.

Tim Glenn: Yes. Steve. Good to hear from you this morning. You know, obviously, we're wrapping up another strong season with Enlist and, you know, very outstanding performance of both the seed and herbicide program. And as we roll through harvest, you know, varieties that we had in the marketplace are performing well and strong satisfaction with our customers this year, you know, despite, you know, really variable yield levels and some challenging environmental conditions.

And as you say, 2023 is a very important year for us because it's when our proprietary genetics really kick in and will have an impact. And what I would tell you is, in terms of our licensing focus right now, we see that as a very important longer-term opportunity. In the near term, it's most important that we convert our own branded business to our proprietary varieties.

And so, we're in that process right now. As you say, it's going to be a major ramp up this year. So, I wouldn't expect in the immediate future to jump on or think about licensing opportunities as first priority. But as we convert over our own branded business, which is substantial, we have a major share of the market both in the Pioneer brand and our other brands.

It's going to open the door for us to, I think, really participate and have a strong position in that licensing opportunity.

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Chuck Magro: Yeah. And just to add to that, Steve, when you think about our platform in the CP side, we are still the only Enlist manufacturer for the herbicide that can go over the top of these beans as well. So, that'll give us some uplift there as well to mean how this plays out.

Yeah. And then Steve, just the big picture is we're expecting in 2023 about $100 million of royalty reduction. So, this is the first year where you're going to see meaningful value creation from the technology. And as obviously, as the market continues to be penetrated, we expect that number to grow to approximately 250 by 2025. So, really good value creation in the next three years on the Enlist technology platform.

Operator: We will now take the next question from Frank Mitsch from Friedman Research. Please go ahead.

Frank Mitsch: Hey, good morning, folks. I want to come back to the slide. I want to come back to slide ten and certainly appreciate the color that you've already provided in terms of the 2023 outlook. But I want to come to the three buckets of concerns for next year between the inflation and Latin American seed supply as we sit here today. How would you rank order those concerns into next year?

Dave Anderson: Maybe I could talk a little bit. I'll talk a little bit about the currency point and just kind of give you a just a little bit of a backdrop. And then, Tim, you want to want to talk about the other point?

I mean, I think currency, as we indicated, is going to continue to be a headwind. Right now, if you look at where the major currencies are trading and, you know, we think in terms of the euro, obviously, the Brazilian Real, the Canadian dollar, some of the other European currencies as being significant for us. Right.

And when you look at those numbers, if you just did a sort of a flash of where we are today, we'd be looking at currency headwind that would be comparable to what we've are experiencing in 2022.

And we talked about a 3% headwind that's revenue headwind that would be a comparable headwind that we would anticipate for next year. On the inflation side, I think we talked about that earlier in terms of a macro consideration and that one and Robert did a nice job of handling that as well. That one we see that we're just going to have to remain very, very vigilant. We don't see other than obviously lapping very strong inflation this year in some mitigation of the rate of inflation.

We don't see, call it a peace dividend related to a reduction in costs, major costs for next year. Tim, you want to address some of the fundamentals?

Tim Glenn: Yeah. In terms of specifically in the Latin America seasonally, Frank, you know, the season's progressing well and we've seen a timely planting of soybeans in central and north part of Brazil and that's favorable for the upcoming spring season.

And you know, typically, the plantings initiate in January. We've talked for a little while now about the tight feed supply and it's based off of many factors and it's really going to impact the first half of 2023. In terms of our ability to serve the market in the fourth quarter, we feel comfortable with that, but it's going to be a tight supply as we get into the, call it, the mid to latter part of the spring season, and we're working closely with our customers on that. So, because of the production challenges, you know, we're left with less inventory than we'd like.

You know, the focus for this season is certainly around capturing value more than volume in the marketplace. And I want to emphasize that. So, the team is extremely focused on capturing value there. We're going to rebuild our inventories as we move into Brazil.

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The bulk of our sales are certainly in the second half of 2023. And the focus is on is getting back to a comfortable level of inventory by midyear. So, we're going to be able to meet full demand in the second half of 2023. So, I think, on a full year basis will be recovered and actually will be, you're not going to feel an impact, even though there might be some timing differences from what we would have seen in prior years.

Operator: We will now take our next question from Josh Spector from UBS. Please go ahead.

Josh Spector: Yeah, thanks. Just your Enlist penetration comment on 2023. I mean, you have two targets for 2025. Is 2023 now ahead of your plan and does that change what you think the ceiling could be in 2025? Could you be above 60%?

Tim Glenn: Josh, it was just a couple of months ago that we had to signal the, you know, what the new potential was. So, we raised it and obviously, we're in the discovery phase of what the opportunity is. So, I can't say we have an update to what that is.

You know, clearly, it's going to be depending upon a number of factors, some of which we control, some of which we don't control. But the important thing is that, you know, as we go into 2023, we expect Enlist E3 to be the majority or the top selling technology in that very important soybean seed market.

So, that's a very significant milestone that we're reaching. And again, you know, based off of, you know, performance of the of the technology and the system feed and crop protection, I think the market's going to determine that.

But we're comfortable with that 60% today. And certainly, as we go forward, we believe we're going to have very strong genetics. We know we'll have very strong genetics from us and other providers in the marketplace, and there's no better crop protection system in the marketplace. So, we feel comfortable about what our long-term perspective is, that our long-term opportunity is there.

Operator: We will now take our next question from Ben Theurer from Barclays. Please go ahead.

Ben Theurer: Thank you very much. Good morning and congrats on the results. Just wanted to stay along the lines around the royalties and some of the planning framework. As you've mentioned that your expectation is that corn's going to lead the planted area in the U.S. next year. Are there any signs that you've seen that from like farmers demand?

Because obviously, that would be supportive to your royalty reduction if there's more demand for corn versus soy? So, just to put a little bit into perspective, what is Farmer's decision switching back to corn and how much is really what you improve by accelerating and lift and drive more of your own germplasm? Thank you.

Tim Glenn: Yeah. Maybe I'll take a shot at this to start off with. And so, as we look at 2023, obviously, and from a North America perspective, you know, it's early, you know, but we expect that, you know, that there's going to be that approximately hundred and 80 million acres of corn and soy that'll be planted, that'll be slightly up from a year ago, as we certainly hope that we don't have a repeat of the prevent plant area that we saw this year, which was above what we would typically see.

And when we talk about why the markets favoring or tilting towards corn, you know, we're really basing it off of the market fundamentals. And, you know, the thing I always come back to is, you know, take the November 2023 soybean price and divide that by the December 2023 corn price. And that ratio is really indicative of where farmers profitability is.

And right now, that ratio's at about 2.15 to 2.2 moving around every day. But that is in a bullish range for corn. And it's actually probably the most favorable we've seen for corn in several years. So, that's our signal right there. You know, in terms of getting to the finer points of, you know, what are customers signaling, I'd say too hard to base it off of the book of orders we have right now.

You know, we're out there, you know, in the marketplace with customers and helping them make those decisions. You know, we're talking about what their intentions are and booking seed for next season. But, you know, farmers are going to step back and they're going to continue to monitor several things.

I mean, first is, and Chuck talked about it earlier, you know, the weather is going to be a factor and we've got a long way to go before customers plant a crop. And so, I certainly don't see this as a as a barrier right now. But it is dry right now. And, you know, we need to get closer to normal precipitation through this through this winter so that we can be in better condition for all crops as we go forward.

Look, farmers will continue to look at that and certainly farmers are going to follow the markets and what the relative profit opportunity is for each crop. And that is a very farmer by farmer decision that they have to make.

And the types of shifts we're talking about, we're talking about a couple of percent shifting one way or another here. So, it's subtle and it's in, it's hard to feel it in mass. You really have to look at it on an individual customer basis to see where that's going.

But, you know, we're going to continue to be with our customers every step of the way from now until that crop goes in the ground. And as they make their hybrid and variety decisions, you know, we'll be partnering with them. But that's kind of what the motivation is why we talk about the market tilting towards corn right now.

Operator: We will now take our final question from our Arun Viswanathan from RBC Capital Markets. Please go ahead.

Arun Viswanathan: Great. Thanks for taking my question. I just wanted to get your thoughts maybe on growth of top line and EBITDA in the next year or so.

On the top line, if we look at the slide with some of the positives and negatives, it looks like we can get to about a mid-single digit level of revenue growth and given maybe $100 million of royalty reduction and some of the other drivers that could be levered to maybe high single digit EBITDA growth. Is that the right way to think about what your preliminary thinking about T3? Thanks.

Chuck Magro: Well, let me give you my perspective and then, Dave, you can get into a bit more detail. So, look, if you go back to the September Investor Day, we laid out a three-year plan that had significant value creation. Right?

Getting to 21 to 23% EBITDA margins, 4.1 to 4.7 billion of EBITDA from where we were at in the last fiscal 2021 at 2.6 billion of EBITDA. We also said today that we are feeling very comfortable that we're on track for that value creation plan and that Dave said it's very rateable. So, I think, we will give you our more specific numbers obviously in February when we give full year guidance. But today, given everything that we see coming at us, we feel very comfortable that we're on that plan. Dave, any other final comment?

Dave Anderson: I think that summarizes it very well.

Chuck Magro: Good. Thank you.

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

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