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Presentation

Operator

Thank you for standing by. My name is Kayla, and I will be your conference operator today. At this time, I would like to welcome everyone to the Corteva Agriscience 2Q 2024 Earnings. [Operator Instructions]

I will now turn the call over to Kim Booth, Vice President of Investor Relations. You may begin.

Kimberly Booth

Vice President of Investor Relations

Good morning, and welcome to Corteva's Second Quarter and First Half 2024 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's now my pleasure to turn the call over to Chuck.

Charles Victor Magro

CEO & Director

Thanks, Kim. Good morning, everyone, and thanks for joining us. We plan to update you today on our second quarter and first half performance, share our latest expectations for the second half of this year. In the second quarter, Corteva delivered both top and bottom line growth in nearly 250 basis points of operating EBITDA margin expansion. This was driven by strong demand for our proprietary technology, which was also particularly evident in our Seed business results. We also saw Crop Protection volumes grow, a sign that the industry is starting to stabilize after almost 2 years of declines. Seed continued its impressive trajectory in the first half of the year with 420 basis points of operating EBITDA margin expansion and broad-based pricing gains across all regions.

While North America corn acres are down year-over-year, the team has managed to hold volumes relatively flat and gained share in the first half, a testament to both strong demand for our latest corn hybrids as well as the strength of the Pioneer business model. Performance and Seed remains strong across products and technologies, and we are proud to be #1 in the North America Seed market for both corn and soybeans. We are particularly pleased to see Enlist E3 continue to be valued by farmers, and we believe E3 technology is the future. It is on at least 65% of U.S. soybean acres in 2024. Earlier this year, we announced the commercial availability of Pioneer brand Z-Series soybeans in the U.S. and Canada, which is the next generation of industry-leading genetics with the Enlist trait.

This new class of soybeans offers farmers a strong defensive package with a generational leap in yield potential and agronomic performance over any soybean lineup Pioneer has ever introduced. In extensive 2023 impact trials, Z-Series soybean showed an average yield advantage of 2.7 bushels per acre over our own A-Series soybeans, which delivers substantial economic benefit to growers. And I know most of you are well aware of how the Enlist transition has supported our aim of becoming royalty neutral by the end of the decade. But it's worth noting that our royalty income stream is also accelerating quickly in corn.

In the first half of this year, we grew our royalty income by an impressive 40% when compared to the same period last year led by the strength of new corn trait technologies like PowerCore Enlist. Our strategy of becoming a technology seller is gaining traction as reflected in our margins.

Turning to the CP business. We can say that here, too, our technology remains a driver for farmers. By the end of June, we had registered over 100 new Crop Protection products globally. These new product registrations give farmers access to new cutting-edge solutions that can help them increase yields and grow more food and fuel. Overall, the Crop Protection business continues to navigate an imbalanced market, driven largely by residual destocking and competitive market dynamics. Still, we are encouraged by the 6% volume improvement in the second quarter. Although net sales and operating EBITDA were down for the half, we're still anticipating that 2024 will be another year of top and bottom line growth and margin improvement for Corteva.

Record-setting demand for grain, oilseeds and biofuels is expected to continue through the end of 2024. On-farm Crop Protection demand remained stable as farmers prioritize technology to maximize yield, and we expect the market to begin to move towards more of a balance between sell-in and sellout at the channel. We also anticipate that farmers will continue to prioritize investments in top-tier seed technologies given their direct impact on yields. To reflect the impact of the competitive market dynamics and weather-driven missed applications in North America and Europe in the first half for Crop Protection, we are lowering our full year net sales guidance by about 1% in operating EBITDA by about 2% versus the midpoint we guided to last quarter.

A few comments on 2025. It's still early, and we need to see how the full year of 2024 plays out. Generally speaking, we remain constructive on 2025, and we are on a path that would get us into the framework for operating EBITDA and margin improvement. We feel good about what we can control, delivering meaningful royalty benefits, productivity and cost deflation on a year-over-year basis. Recall when we adjusted the 2025 framework back in February, we indicated that it was contingent upon stabilization in the Crop Protection market in 2024 and a return to growth in 2025. The volume improvement in the second quarter has given us some optimism in our second half growth assumptions, but we're monitoring the competitive pricing environment very closely. We'll be providing more of a detailed update on our views of 2025 at our Investor Day event in November.

Now turning to the outlook. The U.S. crop mix shift from corn to soybeans played out as we expected. However, the main feature of 2024 growing season thus far has been the U.S. corn and soybean crop condition ratings have been running well above 2023, creating an expectation for strong yields. Time will tell, but it is clear that strong yields are being dialed into the corn futures. As global stocks of major grains and oilseeds stabilize, commodity prices have started to come under pressure, indicative that we're now below mid-cycle pricing. These lower prices, combined with higher interest rates have led farmers to tighten their operating approach. But there is still a lot of confidence with the vast majority of farmers, and they know the formula for success and how to be prudent with the investment decisions that they make in their operations. And they know they have to drive productivity in order to be competitive in the marketplace.

Brand trust and the years of experience and expertise behind it is also extremely important. Farmers can always find cheaper seed, but with Corteva brands, they know they can trust our long history of incremental annual yield improvement, which gives them confidence in the outcome as well as peace of mind. And like most of us, once you experience the best, it's hard for farmers to settle for anything less.

With that, let me turn it over to Dave for insights on our financial results and outlook.

David John Anderson
Executive VP & CFO

Thanks, Chuck, and welcome, everyone, to the call. Let's start on Slide 6, which provides the financial results for the quarter and the half. You can see from the numbers here, sales and operating EBITDA for the first half were down slightly from prior year, although a little better than our latest estimate, driven by a strong finish in North America seed's season. Briefly touching on the quarter, organic sales were up 2% compared to prior year, with gains in both Seed and Crop Protection. Pricing for the quarter was up 2%, with gains in seed partially offset by continued competitive pressure in Crop Protection.

Second quarter volumes were flat with volume gains in Crop Protection, led by Latin America and North America, offset by seed volume declines in North America due to the first quarter and second quarter timing. Top line growth and continued productivity and cost actions translated to earnings growth of 10% in the quarter in nearly 250 basis points of margin expansion compared to prior year.

Now focusing on the half. As a result of the tough first quarter, organic sales were down 2% with seed growth offset by Crop Protection. Seed pricing gains were mid-single digit compared to prior year and offset by seed volume declines, which were driven by lower planted area in EMEA and in Asia. Crop Protection price and volume were both down in the half in competitive market dynamics and the really tough comp of the first quarter of 2023. The top line performance translated into operating EBITDA of approximately \$2.95 billion for the half, down slightly compared to prior year. Seed pricing, the benefits from improved net royalty expense and productivity savings drove nearly 60 basis points of margin expansion.

Let's now go to Slide 7 and review sales by segment. Seed net sales were up 2% in the half versus prior year. Organic sales were up 4% on broad-based pricing gains as we continue to price for value. Global seed pricing was up 5%, with gains in every region and across the portfolio. In Crop Protection, both net sales and organic sales were down 11% in the half. Pricing was down 4% compared to prior year, driven by competitive price pressure and market dynamics. Crop Protection pricing in EMEA was up 2%, largely in response to currency. Crop Protection volumes were down in the half, although we did see volume growth of 6% in the second quarter. Demand for new products in spinosyns drove volume gains over last year, and importantly, we continue to expect volume growth in the second half driven largely by Brazil.

With that, let's go to Slide 8 for a summary of the first half operating EBITDA performance. For the half, operating EBITDA was just under our record first half 2023 to just over \$2.95 billion. Pricing gains coupled with improvement in net royalties and productivity actions were offset by volume declines in cost and currency headwinds. Higher seed commodity costs and Crop Protection inflation on input costs, reflecting the sell-through of higher cost inventory were more than offset by benefits from reduced net royalty expense and productivity savings. SG&A for the half was up 1%, including an additional \$25 million of spend compared to prior year related to Biologicals acquisitions. Excluding these costs, SG&A would have been approximately flat versus last year despite merit and inflation.

Let's now go to Slide 9 and transition to the updated outlook for the year. The updated full year guidance reflects the current Seed and Crop Protection markets and the best judgment of our key variables for the second half. We now expect net sales to be in the range of \$17.2 billion to \$17.5 billion or up 1% at the midpoint. The lower guidance in revenues is primarily due to North America and EMEA Crop Protection price and volume in the first half of the year in the updated second half BRL to U.S. dollar assumptions. Operating EBITDA is now expected to be in the range of \$3.4 billion to \$3.6 billion, 4% compared to prior year at the midpoint. The updated guidance is driven by lower top line growth, partially offset by less discretionary spending.

We also now expect a cost tailwind for the year driven by improved royalty expense, Crop Protection raw material deflation and productivity benefits. And while we still expect increased R&D and SG&A for the year, the increases will be more modest than our prior guidance. With the strength of Seed performance in the first half and Crop Protection volume and cost improvement in the second half of the year, we now expect operating EBITDA margin for the year of approximately 20% at the midpoint of guidance, or approximately 55 basis points of margin expansion over last year. Operating EPS is expected to be in the range of \$2.60 to \$2.80 per share, roughly flat versus last year at the midpoint.

The change in EPS from our prior guidance primarily reflects lower earnings at the midpoint. We're reaffirming our free cash flow guidance of \$1.5 billion to \$2 billion or approximately \$1.75 billion at the midpoint, and cash flow to EBITDA conversion rate of 45% to 50% for the full year '24. And finally, we're on track to complete \$1 billion of share repurchases for the year, including \$500 million completed during the first half. We also recently announced a 6.25% increase in the annual dividend, consistent with the dividend growth strategy. Now both of these are testimony to the strength of our balance sheet and the cash flow outlook.

Going now to Slide 10. Let's look at the key drivers for the first half performance in the setup for the remainder of the year. Again, the first half results were overall slightly ahead of our expectations, driven by the strength of the Seed business. North America delivered an impressive performance, with 4% growth in organic sales compared to prior year despite the 3% reduction in U.S. corn acres. Crop Protection first half results were impacted by competitive market pressures. Overall Crop Protection industry conditions have begun to improve, but not yet fully stabilized. Crop Protection experienced low single-digit rate inflation on input costs through the first half. Those market-driven cost headwinds were offset by benefits related to reduced Seed net royalty expense and productivity actions. SG&A and R&D, as expected, were up modestly compared to last year.

Now if you turn to the right side of Slide 10, regarding the second half of the year, our assumptions are largely consistent with what we shared with you in early May. In Seed, we expect a rebound in Brazil safrinha corn area after a reduction in the 2023, 2024 season. However, an additional risk in Latin America is Argentina planted area due to corn stock. Crop Protection volume gains will drive much of the growth in the second half with pricing expected to remain challenged. Our assumption is for volume growth versus prior year, led by Brazil and demand for new products and biologicals.

Importantly, the order book for the second half Crop Protection sales in Brazil is trending ahead of last year. Available data suggests channel inventories are trending down. These data points are positive signals that the market is moving towards more stabilization and supports the assumptions for volume growth in the second half. And as you know, we expect to see input cost deflation in Crop Protection during the second half of the year. Coupled with productivity and cost actions, we anticipate a cost tailwind for Crop Protection. And as a reminder, we expect an increase in the SG&A spend for the full year '24 driven by normalized bad debt and compensation accruals, and we'll also continue to increase the investment in R&D.

So the balance of improved Crop Protection market conditions in Brazil and the continued focus on cost controls will drive second half growth. It's important to point out the allocation of earnings between third and fourth quarters. We expect normal earnings pattern for the second half, which implies an operating EBITDA loss in the third quarter and therefore, all of the second half earnings delivered in the fourth quarter.

So let's now go to Slide 11 and summarize the key takeaways. First, operating EBITDA performance for the first half was largely in line with expectations, led by the strength of the Seed business. Regarding the full year, driven mostly by the current market dynamics in Crop Protection, we're updating our full year guidance, but still on track for sales and earnings growth in 2024. Seed momentum continued through the first half, driven by the strength of the portfolio and strong demand for our latest technologies, particularly in North America with market share captured in both corn and soybean. Overall, it's been an impressive first half for the Seed business and continuing a strong trend by Seed.

Looking forward to the second half of the year, Crop Protection volume gains in Latin America and cost improvement from raw material deflation and productivity actions will drive much of the year-over-year EBITDA growth. And finally, the strong first half cash flow results keep us on track to deliver the midpoint of our free cash flow guidance range of \$1.75 billion or approximately 50% conversion rate.

And with that, let me turn it back over to Kim.

Kimberly Booth

Vice President of Investor Relations

Thanks, Dave. Now before we get into Q&A, Chuck, I believe you'd like to make a few closing remarks.

Charles Victor Magro

CEO & Director

Thanks, Kim. I'd like to say a few words about the announcement made after market yesterday that we will have a new Chief Financial Officer starting September 16. David Johnson will join Corteva from Atkore, a publicly-traded company and leader in electrical safety and infrastructure solutions, where he also served as CFO. David is an accomplished CFO with a proven track record of delivering strong results, operational efficiency and financial discipline to large global organizations like ours. He has nearly 3 decades of experience. And as I've gotten to know David throughout this process, I believe he is the perfect choice for Corteva.

David will, of course, succeed Dave Anderson. To ensure a smooth transition, Dave will continue to serve on the executive leadership team as a strategic adviser to me until his retirement in the first quarter of 2025. Dave joined Corteva over 3 years ago, which was, as many of you will remember, both a pivotal and critical time in our history. With his wealth of experience and his considerable expertise across industries, Dave gave this company, its board and its leadership assurance that this company's financial strategy was in the best of hands, and I think the results speak for themselves.

So before I turn it over to Dave, I'd like to thank him for his service and his dedication to Corteva, to our investors and shareholders and to our customers and employees. Dave, thank you. It's been an absolute privilege to serve alongside of you.

And with that, over to you.

David John Anderson

Executive VP & CFO

Thanks, Chuck. I really appreciate the kind words. It's obviously just been a terrific opportunity to work with Corteva, to work with you and the organization over the last several years. And I'm proud of what we've been able to accomplish, and I'm really pleased with the strengthening of [indiscernible] team and the alignment of the finance organization to support our Crop Protection and Seed business units. And I'm looking forward to supporting David in this transition. I know it's going to be a successful one. I know he's going to be a terrific CFO for Corteva. So thanks very much.

Kimberly Booth

Vice President of Investor Relations

Thanks, 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 instruction.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Vincent Andrews with Morgan Stanley.

Vincent Stephen Andrews

Morgan Stanley, Research Division

And first of all, Dave, congratulations on your retirement, and thank you very much for all the help over the past 3 years. Chuck, if I could ask you on your sort of initial comments on 2025. And please correct me where I'm wrong. But it sounded to me like you were sort of softening your stance on '25 and sort of not saying, hey, I took '24 down by \$100 million. So just take that existing 3.9% to 4.4% range down by \$100 million. So I want to check in on those bridge items and see what's still intact versus what your incremental concerns might be.

So you had \$100 million of royalty improvement for '25. another \$200 million of productivity and cost actions for '25. And I know we had been talking about but hadn't quantified and received cost deflation for '25. And then at least I expected some more crop chemical deflation for '25. So if you could update us on those items, if there's any change and then also indicate is it the Crop Protection pricing that you're concerned about? Maybe deteriorating further? Or are you worried about being able to get seed price mix in '25 if the futures curves stay where they are?

Charles Victor Magro

CEO & Director

Yes. Vincent. So great question. I guess let me start by just saying we still have a lot of conviction over 2025. We feel very good about the things that are obviously in our control. And if you've looked at sort of how we describe the controllable levers, whether it's feed out licensing, the productivity and cost improvement that we're working through, biologicals growth, all these things, we said \$350 million to \$450 million in both 2024 and 2025. We're thinking that, that number now is certainly north of \$400 million for each of the years. So very good around the controllables.

When you think about Seed, we remain very comfortable with our base assumptions for 2024 and moving into 2025. And I would even go beyond '25 the technology pipeline that we've built, we think, is second to none in the industry. And our out-licensing now is ramping up very nicely as we made comments in our prepared remarks, and then as you rightly called out, we can see deflation now that's in the P&L in both Seed and CP. You're right, we have not given you full quantities yet. We will do that at the right time. But we think that, that could be a significant tailwind as we think through 2025 and even beyond that.

So when you put all that together, we're very comfortable with if you look at the forward guide now for '24 and then you look at some of the ranges we've provided for 2025 and what we call the value framework, we're very comfortable we're on a path to that range. The biggest question though, and we can't ignore it, right, is not when we think about CP pricing. So we needed to see a few things in this quarter. And so we're feeling pretty good that we saw volume growth in Q2 when it comes to CP, but it's been a pretty competitive environment when it comes to pricing.

And so that's the thing that we're watching. We're not overly concerned, but it's something we're keeping an eye on. And the 2025 framework then needs to connect to that. And what we're hoping to see now is further stabilization in the CP industry. And then eventually, this market will return to growth because we've got 2 years now, where we've seen declining organic growth. And to see 3, it would be quite unprecedented. It's happened before, but it's been quite rare. And so we're still feeling that our base assumption of some growth in 2025 makes sense. And when you put all that together, I think the value framework would still be very comfortable for Corteva.

Operator

And our next question comes from the line of Joel Jackson with BMO.

Joel Jackson

BMO Capital Markets Equity Research

Just following up on that. So over the last hour, one of your competitors was talking about seeing kind of 6% revenue growth next year in crop chems. Speaking to what you're talking about, a volume recovery, but competitive prices, price declines. So I know it's

following up on the prior question here. But is that in the ballpark of what you're seeing more higher, lower? And why would you be higher or lower than, say, that benchmark?

Charles Victor Magro

CEO & Director

Yes. Let me give you a perspective, Joel, and then I'll have Dave just talk about how we built the forward guide, and Dave can give you some specifics. So when we look at CP for the second quarter, our price was down approximately 5%, but our volumes were up 6%, and we really needed to see the volume growth. I think from a Corteva perspective, and I'm only going to speak about Corteva today, I think what we wanted to do is make sure that we manage the inventories going into the channel because, look, we need to learn from what's happened, right? And we want our recovery when we look at Corteva to be sustainable as we work through the quarters. And so we're very comfortable. We like the path that we're on.

I think when we think about how we guided the market, it's important to say that the midpoint came down about \$100 million, really that was sort of first half impact, right? But we had some pretty significant weather that impacted the CP business. We lost some sprays, both in Europe and the U.S. And then there was the pricing dynamic, which we've already called out. So now when you think about how to think about the rest of 2024, Dave, I'll let you kind of comment on that.

David John Anderson

Executive VP & CFO

Sure. Sure, Chuck. And I think to just related to 2025, I think, Chuck, we would get into any details and any specifics regarding that at a later time. It's really too early to comment on that. But importantly, Joel, as you know, for the first half, let me talk about our pricing assumptions just a little bit, and then we can talk about overall market. And Robert, you may want to comment a little bit just on what we're seeing at the farm gate in terms of just the continued demand there and the steadiness of that demand.

But on the -- for the first half, as you saw round numbers, we were around 4% pricing headwind in the business. Crop Protection business is 3.5%, specifically for the first half. And our expectation is for the full year, that's going to be a little greater probably in the -- I'm going to call it the low to mid-single digits, really driven by the mix, the geographic mix. We've got a much larger, as you know, an increase in Latin America as a percent of total for the second half. So that's what's really influencing that number.

When we look at volumes and volume expectations for the industry, and I'll let Robert comment on this more. I mean, all of what we're seeing signs in what we're seeing as Chuck said, are pointing to some return to normalcy stabilization, if you will. And we're seeing that in terms of the demand, in terms of usage of product, including the differentiated products that are in terms of technology possess technology and efficacy that the farmer needs.

And Robert, you may want to just comment a little bit about that because I think that bears on the health of the overall business and the outlook.

Robert King

Executive Vice President of Crop Protection Business Unit

Thanks, Dave. Joel, we finished up about as we had expected in the first half. And so as you begin -- as we move into the second half, you're going to see growth from really 3 areas in Crop Protection, new products, spinosyns and biologicals. These will account for about 65% of our total growth for the business in the second half. And these are product areas that -- product lines that are performing better than the market and definitely better than the rest of our portfolio and historically have done so as well.

And further to that confidence of what we're seeing and our expectations, Brazil order book is very healthy and much more so than it was last year. We're about 20% ahead of where we were last year. So again, that gives us confidence that things are moving. And then we think -- when you look at our biologicals, we have 70% of our full year orders already in hand. And so once again, it gives us lots of optimism for the second half that we'll be able to do what we're saying we can do, and that will roll into '25.

Operator

And your next question comes from the line of Chris Parkinson with Wolfe Research.

Christopher S. Parkinson

Wolfe Research, LLC

So one of your competitors put out its preliminary U.S. Seed price cards fairly early. I think 10 years ago, it would have been [indiscernible] go in August, and now we have somebody putting out in early July. What are your presumptions in the marketplace

of why that was done in terms of your current share gains in certain row-crop, presumably soy, as well as your ongoing field performance. It's probably a little bit early to comment on the latter. But just any commentary and insight on why you think that was done would be particularly helpful?

Timothy P. Glenn

Executive Vice President of Seed Business Unit

Chris, this is Tim. I'll take a shot at this. So it's hard to comment on what the motivations were for putting a price card out early. When you put a price card out early, there's, I'd say, a gap in details in terms of what you understand, you don't necessarily know what the mix of products that they're going to sell, you don't necessarily know what their gross to net is going to be. And my best guess, right now, is there's not a farmer who's made a buy decision yet based off of that. So we're in the process of developing our '25 plans. And I'd say we're weeks away from North America, we're generally pretty consistent in terms of timing, and we'll stick to that timing as well. A little bit later in Europe, but more like a month or 2 out for most of Europe.

As we think about going into this market, obviously, every year is a little bit different, and it's different in terms of the environment you're selling into as well as what you're bringing to the market. What I'd say is in '25, as we put together our pricing plans, especially in North America, it's really driven by innovation and new technology. And the value approach that we take in terms of delivering value to our customer doesn't change here.

So on corn, we have a very favorable mix enhancement as we think about introducing new hybrids with Vorceed and PowerCore, 2 very exciting and important technologies on corn that we'll be ramping up this year. And as was mentioned earlier in the prepared remarks, we're also going to have a significant ramp-up of our Z-Series soybeans, which will be with Enlist and really take our value prop to the next level with farmers.

so overall, our philosophy never changes. It is value driven, it's technology-driven, and it's focused on innovation and making sure that our customers have access to that new technology. And we have that long, I'd say, long-standing trust and understanding from our customers as we bring them something new and better that we're going to share in that value. So certainly a different market environment, can't really speculate on our competition and what their motivations are. But our focus and our approach really doesn't change in this environment.

Operator

And the next question comes from the line of Kevin McCarthy with Vertical.

Kevin William McCarthy

Vertical Research Partners, LLC

Chuck, in adjusting the guidance, you called out a number of different factors, including corn stunt and the impact on acreage in Argentina, some flooding in Southern Brazil and the Crop Protection chemical pricing environment, and perhaps there are other factors. And so my question would be, how would you sort of rank order the relative importance of those? And then with regard to the pricing dynamic, in particular, I was wondering if you could expand on question of whether or not you had any onetime incentives embedded in the 5% price erosion as one of your competitors seem to highlight earlier this morning.

Charles Victor Magro

CEO & Director

Kevin, so let me -- I'll start and then Dave should certainly comment. So as we've mentioned already, the lowering of the guide was really a lot driven by the -- where we are in the -- after the first half, right, so weather missed applications and then the CP pricing dynamic. The second half of the year when we start thinking about it, what we're looking for is CP volume growth and a similar pricing dynamic that Dave just called out. And really the determining factor for the confidence in the second half will be on 2 things. It will be on controlling the cost and the productivity controllables that we have, and we feel very good about that.

And then Brazil, and really, it's Brazil volume that we're focused on. When you start thinking about the range, though, the upside and the downside and the guide range, we kept it this time a little bit wider than we normally do at this time of the year, and that's really to reflect some of the uncertainty we're seeing in Argentina when it comes to corn stunt. And Argentine farmers right now are not looking to buy the seed. So it is an uncertainty, and there's a lot of different estimates out there. So we feel we're pretty nicely captured between if you think about the guide range between 3.4% and 3.6%, we would fall into that range, I think, with what we know today, and this is evolving, the story is evolving from the planted acres in Argentina.

And then the assumption for the midpoint certainly capture, and we've said this before in Brazil to capture some of the planted acreage that we lost last season, and that was really driven by weather. So we think things are looking better in Brazil, but time will tell, and it's still a little early to call victory on that as well. And then if you think about the upside of the guide range, and Dave, you should weigh in on this, that would have the global CP market starting to stabilize and more of a return to growth, which is an out of the question in this market environment, but we did put that as the upside for the guide range.

Dave, did I miss anything?

David John Anderson
Executive VP & CFO

No, I think you captured very well, just to maybe state the perspective just slightly differently, just to reiterate to some degree, what Chuck said. Kevin, in that base, \$3.5 billion, we've obviously got, as Chuck said, we talked about in the prepared remarks, the Brazil area recovery as well as the CP volume growth, you spoke of that, Robert spoke of that in terms of particularly driven by Latin America, but also, to some degree, APAC and North America increased in the second half, but really significantly driven by Brazil. Pricing, we've given you the assumptions there. We feel that's good in terms of what we're seeing and our expectations. And then the other key point is what we've got dialed in, in terms of cost deflation for the Crop Protection raw materials.

So those are the kind of the base, and then Chuck did a good job of just outlining on sort of the plus, minus of that. And obviously, one of the things we're monitoring, Tim, you're monitoring, and we know more later is the overall Argentina corn planted area, just that phenomenon. So I would say that's the way we would see it, Kevin.

Operator

And your next question comes from the line of David Begleiter with Deutsche Bank.

David L. Begleiter
Deutsche Bank AG, Research Division

Chuck, just again back on CP, I think you said you're not overly concerned on the pricing pressure here. Why is that? And specifically, is the threat from generic producers in China in your view, more or less than it was a year or 2 ago?

Charles Victor Magro
CEO & Director

Yes. So look, we think that there's a lot going on in the CP industry, David. And a lot of this that we'll reference now we think will run its course and it's on a pathway of having an improved in what I would consider to be a healthier CP market overall. So when you start thinking about all of the moving parts here, what we're finding is that a lot of the industry players now are they're moving through their high-priced inventory, which is natural, and it's part of the healing process that we would consider as part of the overall industry dynamic.

But what I would say is that the fundamentals, what you have to keep sort of first and foremost, and the reason we're not overly concerned. And we've said this in the prepared remarks, but it's important to state again, on-farm demand is healthy. And in the first time in 2 years, I'd say what's going into the channel is now coming out of the channel. And so this is just a much healthier overall structure that we haven't seen in a couple of years. So you've got this dynamic where what's generally going into the channel, it's going out of the channel, on farm application are healthy.

Of course, farmers are being smart about their investments and their applications, they always are. But what we're seeing is that, that channel is a lot healthier. So that gives us some confidence. And then what we needed to see was the volume growth into the channel in the second quarter. That was the first sign of what I would consider to be a stable market. And so the pricing dynamic is the way we've described it, but as we work through this journey a little bit more, and we need now to finalize this with Brazil, because we would say that from a destocking perspective, the U.S. and now I'd say Europe, they're more or less destocked. And if you notice, we haven't used that language too much today because we're feeling that the industry is finally behind that.

We have to go through now the Brazil environment, but like Robert said, certainly, our order book is healthier than it was this time last year. And farmers are planning to apply the product in the fourth quarter. So when you put it all together, I think we are on a journey of stabilization. We feel like this is where we needed to be at this time of the year, but we do need to see how the second half actually unfolds. But that's why we have I think guarded optimism is the way I would describe it.

Operator

And your next question comes from the line of Josh Spector with UBS.

Joshua David Spector
UBS Investment Bank, Research Division

Two things, if I can quickly here. First, I apologize if I missed this, but can you talk about your volume expectations in CP for the second half as you go through 3Q and 4Q, when you peers just talked about a healthier 4Q versus 3Q, I wonder if you're seeing that the same way? And then secondly, thinking more longer term, I guess, Chuck, particularly given your experience in the industry, I think you guys have talked about confidence on seed pricing, but what typically have you seen? You talked about you're not concerned about trade down, but what have you seen in prior cycles, particularly year 1 of a more pinched farmer?

Charles Victor Magro
CEO & Director

Yes. Josh, so -- do you want to talk about volumes, Robert? And then I'll come back and we could hear from Tim as well on seed.

Robert King
Executive Vice President of Crop Protection Business Unit

Yes. Thanks. Well, on the volume standpoint for second half in Crop Protection, I'll let Dave talk specifically about some of the splits, but relatively balanced. Dave can reference some more numbers, if needed there. But when you think of us on Q3 and Q4, we don't have a large swing. It's about normal is the way I would think about it. Things are moving, as Chuck talked about, more stabilized. Brazil inventories are approaching normal ranges. And a large part of our business is Latin America in the second half. Specific to volume, we're going to be in mid-teens up on a second half basis. And again, that gives us optimism on how we see things shaping up for second half.

Dave, something to add?

David John Anderson
Executive VP & CFO

No, covered it well, Robert. Let me just say that when we talk about normalization, it's interesting because -- and we've mentioned this previously, but when you look at, for example, in the Latin American numbers, you're really comparing to a weak second half of 2023 and particularly the fourth quarter of 2023. So some of the [indiscernible] that you're looking at, go back and look at cumulative -- if you look at cumulative volumes, '22 and '23 compared to 2020 -- or '23 and '24 compared to '22, that's when you get into more of a -- just a really normal, if you will, sort of expectation in terms of pattern. And there's nothing, Robert, to your point, I think that stands out between 3Q and 4Q.

Tim, do you want to comment on Seed?

Timothy P. Glenn
Executive Vice President of Seed Business Unit

Yes. On the Seed side, we get the question a lot about the trading down, and maybe I'll think about it in a couple of ways. One is in terms of technology ladder, it is very difficult for a farmer once they've had certain seed technologies to be able to move down the ladder, if you want to think of that. So if there used to planning aboveground insect control with certain herbicide-resistant traits, they kind of built their operation around that. If they're used to being triples, above and below ground with multiple modes of herbicide resistance, they kind of are built that. Equipment, labor, the whole bit is around that. And we've not seen any meaningful trade down over time.

And certainly, as recently as 6 or 7 years ago, we were in a very difficult environment and didn't see the trade down at that point in time. On the -- if you think about, from a genetic side or trading down on brand, I think what you have to understand is you can say seed is interchangeable, you can get different trade packages or comparable trade packages from different companies. But one thing about seed is, it is a very emotional decision. And for that farmer, it's not just confidence that the genetics are going to perform and deliver a certain level of yield that's consistent with our expectations, but it's also the ability to be able to handle diversity, consistency over time and plus the support and service they get from their point of sale.

And so in a situation like this, our value proposition has to make sense. And we're quite confident that what we're delivering to those customers will be -- make sense to them, will be additive to their operation. And then the other point is at times like this, especially when margins are compressed at the farm operation level, that last bushel is maybe all the profit that they make. If you want to think of it that way, or put them in a positive cash flow situation. And so they see seed differently and other decisions that they make over

the course of their seed operations. So never take it for granted, always stay close to the customer and help them understand our value proposition, but history has shown that seed holds in well.

Charles Victor Magro

CEO & Director

Yes. Josh, just I'll echo what Tim said very quickly. So in all my years, whether it was being a retailer or now on the seed side, we just don't see it. And the reason we don't see it is because it's akin to gambling. That germplasm, especially if you think about our germplasm, it's approaching 100 years now. And we've got more than decades of experience in breeding. And if you just think about the Z-series that we just rolled out, that 3 bushels per acre against our best stuff because that's a comparative Corteva versus Corteva, that could be the difference between profit and not. So we're not -- like Tim said, we never take it for granted. Our obligation to our farmer customers is to ensure that next year's hybrids are better than this year's. And we invest a lot of money in R&D and plant breeding to ensure that happens. But with that comes some credibility in the marketplace, I think.

Operator

And your next question comes from the line of Frank Mitsch with Fermium Research.

Frank Joseph Mitsch

Fermium Research, LLC

Congrats, Dave, on your pending retirement. It has been a pleasure working with you. There's been a lot of discussion, obviously, on CPC volumes and price. The common theme is higher volumes, but lower price. When do you think we might get back to an environment where pricing is flat or perhaps even positive on CPC?

Charles Victor Magro

CEO & Director

Yes, Frank. So, I think we're approaching -- I don't want to give you a quarter because, look, this whole dynamic that we've all faced with the destocking is almost unprecedented. And if I provide a quarter, I'm definitely sure I'll be wrong. But we're looking at the trend lines, and we're very encouraged at where we're at. First and foremost, like we said a couple of times already today, we did need to see the volume growth, and we saw that. And we needed to see the volumes entering in that channel and leaving the channel at about the same rate and thank goodness on-farm demand has been healthy.

I think many of us are now moving the high-priced inventory through the P&L and into the marketplace, which is another important step and our inventories, Dave, they're still a little higher than we'd like, but they are a lot better than they have been over the last couple of years. So when you put all this together, I think we're on a path of recovery or what we call stabilization. And I probably need to leave the conversation there because it's probably not healthy for me to forecast what will happen, except to say that. Again, 2 years of organic decline has happened in the industry, but it is unusual. 3 years is even more unusual.

Operator

Our next question comes from the line of Steve Byrne with Bank of America.

Stephen V. Byrne

BofA Securities, Research Division

Sorry about that. There's a fair amount of uncertainty out there about whether Dicamba will be available in 2025 or at least by early 2025? And I'd like to hear your view on like how would you rank the benefits to your business profitability-wise from that risk driving more independent seed companies to license your Enlist, germplasm and corn and soy, which you mentioned is gaining some momentum, Chuck. Is that a bigger benefit to you from such an uncertain outlook for Dicamba versus increased shift to your own proprietary brand, your own Pioneer brand in Enlist corn and soy? How would you rank those?

Timothy P. Glenn

Executive Vice President of Seed Business Unit

Steve, this is Tim. Maybe I'll take a first shot and let Chuck wrap up there. So obviously, we're, like everyone else, just kind of eyes open waiting to see how this is going to turn out. And we did have -- we continue to have very strong adoption on the Enlist E3 side in soybeans. And as we said earlier today, we believe it was greater than 65% of the market, which is a tremendous amount of growth when you think about already being above 55% last year. So do I believe that there's still room to grow? I really do believe there's

room to grow. It's hard to size that up based off of the uncertainty around what that label is going to look like and particularly the ability to use the product in season. That's really the -- I think, the outstanding question there.

So from a -- in terms of how it shapes up from 2025? I would expect market adoption to expand in 2025. Are there new companies that are going to be in there? Probably not a lot because there's well over 100 companies that are currently licensed and selling Enlist E3 soybeans today. So I'd say adoption is pretty wide across the market. It's just about how much more can the trade continue to penetrate. Depending upon the outcome, certainly, our brands will benefit at some level. Certainly, licensees and others who are distributing products will benefit. And so to be able to size it up today just with that level of uncertainty, it probably doesn't make a lot of sense. What I can say is there's more than likely adequate seed to support substantial growth on a year-over-year basis between all of the 100-plus companies that are producing and currently in the marketplace with Enlist E3 varieties.

Charles Victor Magro
CEO & Director

Yes. I won't say much more than that on the Dicamba issue. I think Tim covered it well. But if you just look at the strategy that we've implemented just a few years ago to be a technology seller instead of a technology buyer, we're very pleased with that. And you can start to see some of that path to royalty neutrality that hit our bottom line, right, like over 400 basis points of margin expansion in seed. This doesn't happen overnight. This has been a long investment cycle. But if you think about how our soybeans and our corn is performing, and we do have the latest in the next-gen technology in the pipeline, as Tim already called out, with Vorceed and PowerCore and then Enlist E-Series now adding to the mix and becoming more important.

And this year, we're over 200 new hybrids and varieties in the marketplace. Next year, we'll be at a similar number. We think that this -- the strength of our Seed business will continue to gain momentum. And then when you think about some of the lower cost and the deflation as we called it flowing through the P&L, we just like the path that seed is on. It is I think the first half this year was a record. But I think that this business is just getting started. So we're extremely pleased with the performance of our Seed business right now.

Operator

The next question comes from the line of Jeff Zekauskas with JPMorgan.

Jeffrey John Zekauskas
JPMorgan Chase & Co, Research Division

In your corn product line in the U.S., did doubles grow faster than triple? And you said that your corn royalties were up 40%. Is that a \$20 million benefit or \$10 million or \$30 million? Can you size that?

Timothy P. Glenn
Executive Vice President of Seed Business Unit

So in terms of -- maybe I'll start off, and let Dave size up from a financial standpoint. But in terms of our mix, our mix is pretty stable between years. And so we've been -- we've had a really strong offer in the past. So yes, we're transitioning PowerCore, we're transitioning the Vorceed, but we've had a really strong competitive offer up till now, and this is just building off of that. So when you think about it from a between year standpoint, that mix doesn't really change a whole lot, sometimes on the margin.

But generally, I would say, stable. And as we introduce the next level of technology, it's really more about replacing and upgrading rather than all of a sudden altering that mix. And on the corn licensing side, specifically, it's the PowerCore lift is where we're growing, and we've been in the marketplace and licensing our genetics with that trade for the last couple of years, and we're starting to see that build.

And so Dave, I'll let you talk about it from a financial standpoint.

David John Anderson
Executive VP & CFO

Yes. So the total -- so the total royalty income referencing 40%. So that's not just corn. That's our total, as Tim said. And what that equates to for us is that about a \$35 million increase. Hope that helps.

Operator

And our next question comes from the line of Kristen Owen with Oppenheimer.

Kristen Owen

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Oppenheimer & Co. Inc., Research Division

I wanted to ask about the moving pieces on the free cash flow guidance since that was held stable, but you did lower the net income outlook. So if you could just update us with your thoughts on working capital. And while I understand it's probably too early to say on 2025, just given that the operations puts and takes that you've defined already, just help us understand how much of the working capital benefit is being captured 2024 versus 2025?

David John Anderson
Executive VP & CFO

Sure. So just quickly, thanks for the question. As you probably saw, we had benefits from both inventory and accounts payable with some offset in receivables in terms of our cash provided by working capital relative to the prior year. So if you will, the change on the change. So inventory was just under \$500 million of benefit, \$165 million and accounts payable about \$650 million and then get some offset in accounts receivable and deferred revenue. I think those trends are going to continue. We're going to see continued benefit in terms of inventory as we sell through the -- in terms of cost of goods sold and the volume that we forecast for the second half of the year.

In the same way with payables is procurement tends to now start to normalize. So we'll get that benefit. Receivables are going to be -- continue to be a bit of a headwind, particularly with the increase that we've got now in volume and revenues in the second half and particularly in the fourth quarter of the year and when you look at the geographic mix of those revenues. It's a little early to talk about 2025 with any degree of precision. We're obviously encouraged by what looks like a 50% free cash flow to EBITDA conversion for this year, we want to sustain that and improve that, if possible going into 2025. So again, that's something that's a little early, but we'll update you on. We're quite encouraged right now the way in which cash is shaping up.

Operator

The next question comes from the line of Edlain Rodriguez with Mizuho.

Edlain S. Rodriguez
Mizuho Securities USA LLC, Research Division

I mean, Chuck, wanted to get your insight into Crop Protection, the relationship, or if there's any relationship between volume recovering and the pricing pressure that we see in? Like is there a relationship? Or will farmers apply the products regardless of pricing, so pricing doesn't dictate what's going on with volume at all?

Charles Victor Magro
CEO & Director

Yes. So look, I think the dynamic that we're seeing right now on the farm, you can see the macro agricultural economy. Margins are tighter than they have been the last couple of years. But farmers are still at least the ones that I've -- and I've spent some time this summer traveling through the Midwest and talking to lots of farmers, Tim and I were talking to a host of Pioneer reps as well this week. What we're finding is, we've already talked about the dynamic with seed. I think with CP, we're not seeing on any broad basis, farmers making decisions based purely on economics.

So if a crop needs to be protected in some fashion, they are protecting the crop. But look, given the margins that we have now on the farm, they're going to make sure that every dollar they spend has the right return on investment. And let's be clear, right, when they're investing in seed or CP, that is a return on investment. What we're finding though is that -- there is a -- if sometimes a farmer will use more of a commodity-type product, they have to use that product oftentimes more often because it doesn't have the same efficacy as some of the newer technologies. So they might buy it for a lower price, but they're going to use more volume.

And I think that, that is certainly what we've seen in some parts of the marketplace. But generally speaking, I think farmers are doing what we would expect them to do in this market. They are prioritizing their investments. They're ensuring that they're going to maximize yield because the yield is going to be what they're going to take and sell into the marketplace and make the returns.

So I think that we're in a market where technology is still going to be important. But we definitely need to ensure that we're providing farmers with a proper return on investment. And when we look at our CP portfolio, we think that certainly there is a lot that we can do to support farmers in those decisions.

Operator

And I will now turn the call back over to Kim Booth.

Kimberly Booth

Vice President of Investor Relations

Okay. So 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.

Operator

And this concludes today's conference call. You may now disconnect.

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