Corteva Agriscience 2Q 2019 Earnings Conference Call Transcript

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9:00 am ET

Operator:

Good day and welcome to the Corteva Q2 earnings conference call. Today's conference is being recorded. I will now turn the call over to Megan Britt, director of investor relations for Corteva. Please go ahead.

Megan Britt
Investor Relations Director

Good morning everyone. Thank you for joining the second quarter of 2019 earnings conference call for Corteva Agriscience. We're making this call available to investors and media via webcast. We have prepared slides to supplement our comments during this call. These slides are posted on the investor relations section of our website and through the link to our webcast. Speaking on the call today are Jim Collins, chief executive officer and Greg Friedman, executive vice president and chief financial officer. In addition, Tim Glenn, executive vice president and chief commercial officer and Rajan Gajaria, executive vice president of business platform will join the Q and a session.

During this call, we will make forward-looking statements regarding our expectations for the future. I direct you to slides two and three of our earnings release for our forward-looking statement disclaimers. All statements that address expectations or projections about the future are forward looking statements. These statements reflect our current expectations but are not guarantees of future performance and are subject to risk and uncertainty regarding assumption. We urge you to review our SEC filings or discussion of some of the factors that could cause actual results to differ materially.

We are providing information on a pro forma basis prepared in conformity with regulation FX in order to provide the most meaningful comparison. So please take note of the pro forma basis discussion in our earnings release and slides. Unless otherwise specified, all historical financial measures presented today exclude significant items, which can be found in the schedules that accompany our earnings release. We will also refer to non-GAAP measures. A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release and on our website.

Turning to the agenda for the call today, Jim will share accomplishments on our priorities for shareholder value creation and provide perspective on the quarterly financial results, market backdrop, and revised full-year guidance. Greg will then review our second quarter and first half-financial results by segment. Following this review, we will take your questions before wrapping up the call.

With that introduction, it's now my pleasure to turn the call over to Jim.

Jim Collins
Chief Executive Officer

Thank you, Megan and thank you also to those joining our call today. Earlier today, we reported the second quarter results for Corteva, our first quarter reporting as an independent company.

Two months ago, on June 1st, we completed the separation of Corteva from DowDuPont, the culmination of a three-and-a-half-year journey and a significant milestone for our employees, our customers, and now, we are pleased to say, our shareholders. With our spin, we created a new kind of ag company, a global pure play, built on a foundation of industry leadership and focused on bringing new and integrated solutions to farmers, enriching the lives of those who produce and those who consume, and ensuring progress for generations to come. That is our purpose. And our early days as a public company have deepened our resolve on delivering on that purpose.

The unprecedented market backdrop for the second quarter presented considerable challenges to our customers and in turn to us -- flooding, planting delays prevented planting delayed deliveries, insect pressures, trade-related market disruptions. The list is long and exceptional, when viewed from the lens of history. In the 150 years of tracking data in our industry, the events that transpired in North America region this season are without precedent.

Now, amid these historic events, both our spin and market disruptions, we've worked hard to deliver progress this quarter on our priorities for shareholder value creation, noted on slide 4. These priorities continue to guide our actions and underscore the quality of the results that we are targeting.

First, two announcements this quarter reinforce our commitment to return excess cash to shareholders. In June, we announced the authorization of a share buyback program to return $1 billion to shareholders, which we expect to complete over the next three years. Additionally, we declared a quarterly dividend of $0.13 cents per share, consistent with our earlier indications. These are proof points regarding our confidence and the strength of our long-term strategy.

On our priority related to developing innovative solutions, I'm pleased to report that in the second quarter we began recognizing licensing income related to our Enlist E3 trait where we already have over 100 executed licenses to date.

We also began seeing traction in the market in terms of units sold. Over 150,000 units were sold through our rep network in the quarter. Although this represents a small percentage of our overall units, it highlights our early groundwork toward reaching our target of having this technology on 10% of North America planted acres in 2020.

Now, beyond Enlist E3 soybeans, new Product launches overall are driving both sales and operating EBITDA improvement in the quarter with growth from Qrome and PowerCore Ultra in see and Arylex herbicides, Zorvec fungicides, and Isoclast insecticides in crop protection.

We continue to see solid momentum in our crop protection product portfolio with geographic label expansions for Arylex, Isoclast, Rinskor, and Zorvec. This includes the very recent registration we received in Brazil for Isoclast and Rinskor.

On cost advantage and our priority around best in class cost structure, we delivered $115 million in cost synergies in the quarter and approximately $200 million in cost synergies through the first half of this year exceeding the original target set for this time frame by about $50 million.

Overall, when you add up what we have delivered since the merger close, we have realized cumulative cost savings of $700 million through the end of this quarter, which is approximately 60% of our $1.2 billion commitment. On top of that, we announced earlier this year that we are targeting an additional $500 million in operating EBITDA improvement over the next five years.

To further our progress in this regard, we launched a companywide initiative this quarter that we are calling Execute to Win or E2W. This effort is focused on establishing an owner mindset for all of our employees to drive the cultural reinforcement that will be needed to deliver and sustain our growth and productivity gains long term. We look forward to providing additional detail on this effort and our productivity plans in the coming months.

And finally, regarding our second quarter performance outside of North America, we realized net sales growth of 10% and organic sales growth of 17% in the quarter, demonstrating the balance inherent in our global operating footprint today.

Though our results were negatively impacted by the North American market, we capitalized on strong performance outside of North America and realized results that demonstrate our ability to set expectations and deliver what we promise.

So moving to Chart 5 and a few highlights on our key performance indicators for the quarter. Net sales decreased 3% versus the same quarter last year. Market disruptions due to the weather in North America significantly delayed planting, resulted in volume declines in both segments from reduced planted acres and missed crop protection applications during the quarter. Sales were also impacted by ongoing currency headwinds and pricing pressures in seed.

Outside of North America, organic net sales were up 17% versus the same period last year on both volume and price improvement, demonstrating the strength of our new product launches and reflecting significant benefit to the quarter from an early start to the season in Latin America.

Operating EBITDA decreased 6% for the quarter, largely driven by declines in the North American market. Demand for new crop protection products resulted in margin expansion in the quarter, which helped to partially offset the impact of currency, raw material cost increases, and declines in North America.

Selling, administrative, and R&D costs declined 9% in the quarter on a net basis. This result highlights the benefit of our cost synergies as well as the discretionary actions our teams are taking to curtail spending in light of the impacts of the market driven declines in our results.

Slide 6 shows second quarter highlights by region. I'll start with our results in North America. North American sales declined 8% for the quarter due to the weather related planting delays that drove reductions in planted area, a significant level of product switching, and a loss of crop protection applications. Uncertainty remains on the planted acres and the USDA announced plans to perform a broad resurvey in July that is expected to be released on August 12th.

In crop protection in North America, elevated channel inventories are impacting restocking. Additionally, competitive price actions, generic price pressure, and large distributor inventory reduction initiatives are impacting pricing. On a positive note, indications are that demand for Corteva crop protection products with pioneer customers is strong, driven by joint offers like TruChoice and Corteva Cash.

Moving to Latin America, we are seeing strong early demand with net sales up 39% on an organic basis. The trend toward an early season started in December of 2018 with the Safrinha season and has continued with a very strong early start to the summer season. We estimate that approximately $80 million in sales that would normally have occurred in the third quarter have moved into the second quarter. Sales have also been bolstered by demand for new products, including year-over-year growth for Picoxy, Dermacor, and herbicides in crop protection and PowerCore Ultra and Leptra corn products in seed.

In Asia Pacific, with organic net sales up 10%, the clear headline is crop protection volume growth due to higher pest pressure and pricing on supply constrained high demand products. The region is seeing broad-based volume and price growth in spinosad insecticides across several markets and crops. Corteva is pleased to have a strong solution to offer customers to address pest pressures evident in the region. Our spinosad technology, while supply constrained, remains an important tool in the local market. In addition to the spinosad growth, the launch of Rinskor rice herbicide China and pricing growth in both corn and rice seed contributed to results in the quarter in Asia Pacific.

Finishing with Europe, Middle East, and Africa, up 6% on an organic basis. EMEA has had a strong season, particularly in seed. Share gains in our all-seed portfolio, particularly in sunflower in Eastern Europe, and implementation of a direct agency model in Eastern Europe have delivered volume gains.

The region also delivered organic growth in crop protection due to strong penetration of Lumiposa seed treatments. Increased demand for new crop protection products like Zorvec fungicide recently launched in grapes and potatoes and Arylex cereal herbicides are also contributing to growth in the region. Currency devaluation in the region has impacted overall sales growth by 9%.

I'll turn now to Slide 7 and cover the drivers of our operating EBITDA results for the first half and updates to our guidance for second half and full year operating EBITDA. Looking at the first half, pro forma operating EBITDA is down 13% compared to the same period last year. Our focus on controlling costs and realizing cost synergies delivered about $200 million in the first half, $50 million ahead of where we expect it to be.

In terms of volume and price, there were several drivers that impacted our results. Starting with new products, we generated $50 million of EBITDA improvement in the first half, predominantly in the crop protection segment. Price and volume improvements across the rest of our portfolio contributed $120 million in incremental benefit to the first half versus last year before we factor in the impact of the North American market.

We estimate that the North American market, for the first half, represents an approximate $350 million headwind, an estimate that reflects lower than expected planted area for corn, soybeans, and canola, mist crop protection applications, and shifts to lower margin products including shorter maturity corn products. This estimate also includes the impact of delayed sales as seed delivery shifted into the third quarter, as well as early deliveries that occurred in the fourth quarter of 2018.

Netting with the seasonal shifts, the full year impact from the challenging market conditions in North America is estimated to be approximately $250 million. Looking ahead to the second half, due to the late North American season, we see some seed revenues shifting into the third quarter, primarily in soybeans. This impact is almost directly offset by the volumes that shifted into the second quarter due to the early season in Latin America. Consistent with our statements earlier this year on the second half, we continue to expect strong price improvement year over year on supply constrained high demand products, primarily in our insecticide portfolio and we expect to have year over year improvement in Latin America in the second half.

We will keep up our momentum to deliver additional cost savings from synergies in the second half, bringing our annual incremental savings to $350 million. On top of this, we are beginning to stage other productivity initiatives related to the additional $500 million in incremental operating EBITDA improvements I mentioned earlier. We'll have more to share on specific actions as we work through them.

In total, we expect to deliver operating EBITDA that's about breakeven for the second half by using the midpoint of the range provided. This represents an approximate $200 million improvement over prior year, which is in line with the improvement we guided to back in May for the second half. When you add it all up, this means we are guiding to an operating EBITDA range of $1.9 billion to $2.05 billion for fiscal 2019, down about 5% versus 2018 using the midpoint.

On net sales for full year 2019, we expect declines of roughly 3% predominantly on currency headwinds. On an organic basis, we expect sales to be about flat year over year.

Now, before I turn the call over to Greg, I will summarize by saying that it is difficult to overstate how challenging this year has been to date. However, our team has waited a long time for the chance to be a standalone company and we intend to show the market what we can deliver. With that, I'll turn it over to Greg who will get into the details behind our second quarter and first half results. Greg.

Greg Friedman
EVP & Chief Financial Officer

Thank you, Jim. Turning now to Slide 8 for a summary of our second quarter results. Please note that all periods except for the three months ended June 30, 2019 are on a pro forma basis for operating EBITDA and operating EPS. As Jim mentioned, the effects of our North America business from unprecedented weather related events continued to impact our overall results for the second quarter via delayed planting and lower than expected planted area in corn, soybeans, and canola and mist crop protection applications.

Net sales of $5.6 billion were down 3% versus prior year on currency headwinds of 2%, a 1% decline in local price and volumes that were essentially flat. Excluding North America, rest of world volumes were up 14%, led by strong early demand in Latin America crop protection products, including 73% year over year growth in sales from new products worldwide. This includes products such as our Isoclast insecticide and Zorvec fungicide

Competitive pricing pressure in North America soybeans, coupled with higher replant in corn more than offset the price improvements we achieved in Asia Pacific from broad based demand for new products across several crops and markets. For rest of world, we recorded organic sales growth of 17% in the quarter versus prior year.

Turning to operating EBITDA, we reported $1.45 billion or a 6% decline versus the second quarter of 2018 on a pro forma basis. Overall, declines were led by lower margins in seed from the impacts of replanting corn and pricing pressures in soybeans. We delivered $115 million of synergies in the quarter and currency was a headwind in the quarter. Our operating EBITDA margins were equally pressured by headwinds within seed, driven by the overall North American market. This more than offset the 150-basis point margin expansion we delivered in crop protection in the second quarter.

Overall, we delivered an operating EBITDA margin of 26%, down 80 basis points from the prior year on a pro forma basis. This translated into operating earnings per share of $1.41, down 9% from the second quarter of 2018 on a pro forma basis.

Turning now to Slide 9 for a year-over-year comparison on our operating EPS. Realized cost savings from synergies contributed $0.13 to operating EPS in the quarter, while volume and price improvements across the rest of the portfolio of $0.06 were offset by the impact of the North American market. Currency was a $0.05 headwind in the quarter. In addition, the impact of changes in our base tax rate on pretax income was a hurt of $0.07. Our base tax rate for the quarter, which excludes exchange gains and losses, was 17.4%, up from the second quarter of 2018 rate of 13.8%.

And lastly, we generated $0.04 of benefit from foreign exchange gains related to our hedging program to offset exposures for the foreign currency denominated monetary assets and liabilities that we carry on our balance sheet.

Turning to our segment results. Slide 10 highlights the performance for the quarter and the half in both our crop protection and seed segments. In crop protection, net sales were $3.3 billion for the first six months of 2019, down 2% from the prior period. The decrease was primarily due to a 5% decline from currency, partially offset by a 2% increase in local price and a 1% increase in volume.

For the quarter, our top line was impacted similarly by currency, offsetting the strong growth that we experienced in Latin America. Crop protection operating EBITDA was $670 million for the first six months of 2019, down 10% from the first six months of 2018. Unfavorable currency, volume declines in North America, and higher input costs drove the decline in operating EBITDA, while the segment delivered on cost synergies.

In the quarter, crop protection delivered 150 basis points of operating EBITDA margin expansion. In seed, we reported net sales of $5.7 billion for the first six months of 2019, down 8% from the same period last year. The decline was primarily due to weather related impacts in North America and the impact of early deliveries of corn seed in the fourth quarter of 2018, which were partially offset by favorable corn seed demand in EMEA. Currency was a headwind of 3%.

In the quarter, we saw similar impacts from the North American market, partially offset by strong early demand in Latin America. Seed operating EBITDA of $1.4 billion for the first half of '19 was equally challenged by the impact of the North American market, down 15%. Our results reflect pricing pressure and lower volumes from weather coupled with unfavorable currency and the delivery of cost synergy benefits in the quarter. Our second quarter seed operating EBITDA was equally impacted by the North American market.

Turning now to Slide 11 for a closer look at our operating results on a seasonal or first half basis. Starting with crop protection, reported net sales were down 2% primarily due to the impact of currency, partially offset by a 2% increase in local price and a 1% increase in volume. Organic sales growth was 3% and outside North America, organic sales growth was 17%.

In North America, organic sales were down 17% on lower volumes due to loss spring applications and nitrogen stabilizers in corn and soybean herbicides from the impacts of wet weather. Latin America sales grew substantially with 43% organic growth on 37% higher volumes, with strong early demand for the upcoming season. Approximately $80 million of sales were realized in the half, which typically occur in the third quarter. Early demand was concentrated in our insect management product portfolio, including spinosad insecticide and seed applied technologies, as we worked with growers on providing the best solutions to the current pest challenges that they face in that market. We also delivered a 6% price improvement for the quarter and currency was a headwind of 7% for the region.

In Asia Pacific, organic net sales were up 16% on higher volume and price. Our results reflect strong demand for insecticides from broad based growth in several markets, coupled with continued traction in new products like Rinskor herbicide and Isoclast insecticide. Currency was a headwind of 5%.

In EMEA, organic sales were up 5%. Sales growth was driven by the strong and balanced season coupled with continued demand for Zorvec fungicide. Currency was a headwind of 9%.

Turning to Slide 12 where I'll cover the first half performance for our seed segment. In seed, reported net sales were down 8% on 4% lower volume, a 3% decline in currency and 1% lower price. Outside of North America, we delivered organic sales growth of 7%.

In North America, seed sales were down 10%. Volume was down 8% on weaker volumes from weather related delays and reduced plantings, coupled with the early shipments of seed that were recognized in the fourth quarter of 2018. Price was down 2% due to the competitive pricing environment around soybeans as well as higher core replant.

In Latin America, organic sales were up 2% driven by 2% higher volumes. We delivered an increased early demand for corn seed in Brazil, Mexico, and Argentina. Currency was a headwind of 5%. And in Asia Pacific, organic sales were up 3% driven by higher prices in the Southeast Asia market. Volumes were flat to slightly up, as we did see some demand impact on corn due to dry weather in the region. Currency was a headwind of 7%.

And lastly, in EMEA, we delivered organic sales growth of 9% from volume and price improvements for the half on balanced and increased demand in the local market. Our top line results reflect strong demand for corn in southern Europe, as well as volume and price improvements together with expected share gains in our sunflower lineup in Eastern Europe. Currency was a headwind of 10%.

Turning now to Slide 13, I'll provide an update to the modeling guidance that we shared earlier this year for 2019. Just to recap Jim's earlier comment on how we will see the second half of the year playing out, we are expecting about a $200 million improvement in operating EBITDA for the second half versus prior year.

In terms of the quarterly split for the second half, we have historically run at a loss in the third quarter and generated a profit in the fourth quarter. In the 8-K we filed this morning, we have provided historical quarterly data for pro forma sales and operating EBITDA. For interest expense, given better visibility into our delevering of heritage debt, we have narrowed our range for interest expense to be $140 million to $160 million for 2019.

The next few items remain unchanged from our prior guidance. Operating tax rate of 19% to 21% and depreciation and amortization of $1 billion. Note that we exclude all amortization expense from our operating EPS, which is estimated at $400 million for 2019. Additionally, in terms of our $1 billion stock repurchase program, I would expect that we will capitalize on some opportunity in 2019 depending on the current market environment, cash levers, and operating needs. We expect there will be more opportunity to expand on this in 2020.

As it relates to costs and the current market environment, I will emphasize the focus the organization has on delivering on our commitments in light of the current market situation. This includes delivering on the synergy targets we have communicated, executing on the additional $500 million of operational EBITDA improvements over the next five years from ongoing productivity actions driven by Execute to Win, and reducing our standalone costs to achieve best in class costs structure as a company.

And finally, I'm pleased to announce that I will host a webcast on August 15 to cover certain topics related to our standalone financials. Here, I will take a deeper dive into the modeling considerations and address some of the questions that we've received. More details to come and I hope you can join us.

I'll now turn the call back over to Megan to open the Q&A.

Megan Britt
Investor Relations Director

Thank you, Greg. With that, let's move onto your questions. I'd like to remind you that our forward-looking statements apply to both our prepared remarks and the following Q&A. Operator, please provide the Q&A instructions.

Operator

Thank you. To ask a question, please signal by pressing star one. We do ask that you please limit yourself to one question. We'll take our first question from David Begleiter with Deutsche Bank.

David Begleiter
Deutsche Bank AG, Research Division

Thank you. Good morning. Jim, just on 2020, I know it's early but on a very high level, could you help us think about how the EBITDA might look in 2020 versus 2019 given the benefits from costs savings productivity and some maybe higher planted acres, and maybe headwinds from some highest costs? Thank you.

Jim Collins
Chief Executive Officer

Thanks David. Directionally, we think about going into 2020, obviously, we've got to factor in what's the impact of the North America market in '19 and what return we can expect as that market comes back to us. Clearly, we'll continue to have the synergy programs that we talked to you about, flowing through, the momentum that we're carrying through from 2019. And we've given guidance on kind of what to expect year over year in that area.

It comes down to also then the market backdrop. What can we expect around commodity prices on corn and soy, and given the focus on planting intentions. And as we sit here today, we've got a couple of big markets still to clear through. We've got to finalize the North America market that we have in the ground right now. There are obviously going to be questions about the actual harvested quantities of grain versus the acres that got planted. So quality as well as yield is still a big question.

And then we have a strong Latin American market to work through, both the summer and the Safrinha seasons down there. So all in all, it could be shaping up to be a strong season as we see some snapback and a few other things that I've talked about really start to add to our results in a really positive way.

We're obviously not giving any guidance for 2020 here at this point. And we'll be back as we close out the year to kind of set that up. Greg, want to add anything? Great.

Operator: Our next question will come from Jeffrey Zekauskas with JP Morgan.

Jeffrey Zekauskas
JP Morgan Chase & Co., Research Division

Thanks very much. Two questions. What are the key regulatory approvals that you're awaiting and when do you expect them in rough terms to occur? And secondly, you talked about doing $1.9 billion to $2 billion in EBITDA. What kind of operating cash flow does that generate? Or on a normal basis, what's your target for operating cash flow divided by EBITDA?

Jim Collins
Chief Executive Officer

Thanks, Jeff. We had a number of new registrations that occurred for us here in the first half of 2019. So we're carrying some good momentum. Some of those were key active ingredients in our crop protection business. We got the full and unrestricted registration in North America for Isoclast insecticide, which will allow us now to start to ramp that product as we go into 2020.

Your question on what are the big ones that we're waiting on. I'd say the one that would kind of be at the top of my list right now would be, Conkesta, which is the protein for aboveground insect control in Brazil. And from an in-country cultivation perspective, that product is ready to go. What we're really waiting on is that really important China as well as European grain import tolerance.

And in my conversations with folks that are involved in the trade negotiations with China, we know that these traits are on the list and have been discussed as opportunities once a trade deal gets finalized as an opportunity for China to go ahead and approve the import of those. And that would really give us the green light.

So that's really it. We've got a number of other small or minor registrations that we're still tracking, but we feel really good about the status of that regulatory portfolio and our teams around the world executing really well.

Maybe I'll ask Greg to take the cash flow question.

Greg Friedman
EVP & Chief Financial Officer

Sure. Thanks Jeff. The cash flow conversion ratio that we're targeting is above 50%, and that should be a -- and we plan to achieve that in 2020 as our cash flow normalizes. As you would expect, in 2019, we did have some one-time cast needs that are reflected regarding our spin as well as our integration. Those are one-time cash uses that will be completed in 2019. So moving to 2020, should see a more normalized cash flow. We will have some seasonality in our cash flow just driven by our industry. But we are targeting that 50% cash conversion ratio.

Operator

Thank you. Our next question will come from Vincent Andrews with Morgan Stanley.

Jeremy Rosenberg
Morgan Stanley

Hi, this is Jeremy Rosenberg on for Vincent. Thanks for taking my question. I'm going to start on seed. If we expect yields to be lower, let's say in the U.S., maybe there's going to be more demand in LATAM, maybe some kind of a pull forward of demand in North America in the fourth quarter. Just looking at your existing seed inventories, whatever is produced this year, are you at all worried about a potential shortfall in seed production in the U.S. that could potentially force you to do some winter production in South America? And just more generally, how are you thinking about your seed production costs into next year, just given all these moving parts? Thanks.

Jim Collins
Chief Executive Officer

Great. Thanks for that question. You're right, early part of this season as we were working to shore up our planting plans and working with key growers across the North American market to kind of nail down acres and get our production plans up and running. The good news about kind of our approach is, you know, we've been doing this a long time and we have a pretty broad footprint of production facilities kind of across North America. So as we saw those early rains starting, I can't say enough about our production team and how quickly they were able to relocate acres out of some of the hardest hit states – Indiana, Illinois, even that Western Ohio area where we were pretty hard hit.

And that allowed us to go and favor seed production markets where we can take some of those extremes out of play. And so we've got a good footprint in Nebraska, Iowa, and other markets. So at this point right now, we feel like we've got the right amount of seed in the ground for production given where we think the market will turn out to be in 2020. And our early monitoring would suggest that the quality of that production is about where we would expect it to be.

And so right now, we're not factoring in any big changes to our costs of goods on the seed side going into 2020, except maybe for the commodity price impact that might flow through. And in terms of winter production, right now, we don't see any need or any plans to do that. But part of the reason why we don't think we'll need that in corn is we'll have some carry over. We got returns back early enough. We got it into storage to help protect the germination rate. And so that'll allow us to make sure we've got some additional quantities of seed beyond our production out there. And on soybeans, we were right on top of the season there. So we feel good about where we're sitting.

Operator

We'll go next to Steve Byrne with Bank of America.

Steve Byrne
Bank of America Merrill Lynch, Research Division

Yes. Thank you. I wanted to drill into seed pricing a bit. How much was soybean seed pricing down year over year and what's driving this? Is this just a mixed shift down in the price card or is this competitive dynamics between the various oversight tolerance traits that are out there that could actually worsen with the entrance of an Enlist E3?

Jim Collins
Chief Executive Officer

Steve, thanks for the question. So North America obviously was a really tough market. And as the season unfolds, and so you had a few dynamics going on there. We did have the weather affects, you know, replant rates, seed that we were swapping out as we tried to help with maturity ranges. And so you see some of that effect clearly in our corn pricing.

On soybeans, one of the key factors there was a really strong competitive environment that unfolded as you had quantities of seed out chasing fewer and fewer acres as that season unfolded. And we feel pretty good about the way we performed, but we also felt like we needed to meet some of that competition, some of that demand to essentially hold where we are in the marketplace.

The A-series soybeans performance continues to be kind of at the top of the pack in terms of the comparisons. And we feel really good about the competitive side of that from a product performance. So we weren't going to let a lot of acres walk away from us. And then the other thing we've talked about in our results is we actually have a little more of our soybean business left to report, as we had seed deliveries that occurred into the first part of the third quarter. And from our revenue recognition approach that we deliver, when we deliver seed, we record that revenue.

I've got Tim Glenn her with me, obviously, our head of our commercial team, and he was right out there in the middle of all that. Tim, you got anything else to add?

Tim Glenn
EVP & Chief Commercial Officer

Yes, Jim. I think you hit on many of the big points. But I'd emphasize that last fall we had really exceptional product performance with our A-series soybeans. So we had strong demand. One thing you've got to remember. When we were actively selling soybeans in the season, farmers were in a really difficult spot. Soybeans were really out of favor and a lot of uncertainty because that was kind of maybe the most severe impact from the trade disruption. So it was a tough environment.

We definitely had some aggressive competitive actions and I think part of that was a result of some of the really strong performance that we saw on our product line. And I would emphasize one other part is it was a tough production season for us. And so we ended up selling more what I would describe as reduced quality soybeans. So that we had to make a price concession on that. So we definitely felt competitive pressure. We definitely had a difficult environment in terms of farmers' attitude towards soybeans. But the fact that we did have to sell some lower germination beans and make a price concession impacted our price.

The one thing I would emphasize is from a technology adoption, you know, we didn't see farmers trade down on technology. We saw them sticking with our leader products and our technology mix actually ended up very, very close to what we had anticipated. So we didn't see necessarily a behavioral change from farmers, but it was definitely a challenging season on multiple fronts for soybeans.

Operator

We'll go next to Don Carson with Susquehanna Financial.

Don Carson
Susquehanna Financial Group, LLLP, Research Division

Jim, a couple of questions on corn. This was the first year of your new multichannel strategy in North America in corn. What was the impact of this change in channel strategy? Did you see an increase in share? And given how big you are with the Pioneer brand in terms of going direct to growers, you must have a pretty good feel for what actual acres are. Some of the fertilizer companies are talking about acreage planted as low as 85 million to 87 million, and maybe a snap back to 95 million next year. Would you agree with that assessment?

Jim Collins
Chief Executive Officer

I'll start with your second part of your question and then maybe I'll also toss it over to Tim to talk about the multichannel results here. So on acres, you're right with our Pioneer brand, we do get a good sense of what's going on. It's really hard for us to talk about that number. We're still waiting on USDA survey data. They've gone out and decided that they wanted to completely resurvey because some of their information coming in didn't make sense. And a lot of that is caught up between the actual what was planted versus their intentions to plant versus previous year. So we're sort of trying to sort through what is the basis that we're working off of here is intention.

If I just keep it really simple and I think about what was planted last year versus this year. In corn, we could be down a couple of million acres year-over-year. I think when it all sorted out, there were strong intentions early, but where it actually settled, I think we could be down just a couple of million or so, a few million. And in soybeans, again, we still have a little bit of business to finish up here as we closed out the first part of the third quarter. So we're still getting data on that.

But we could be down as much maybe as 10% in soybeans, which will be helpful around carryover and other things like that. But it's still too early to really call it. And we're all waiting to see what USDA says here in a couple of days.

And then Tim, do you want to talk about multichannel a little bit?

Tim Glenn
EVP & Chief Commercial Officer

Yeah, I will. Don, good question. What I'd emphasize is we, as we went into the season, we were going through a very significant reorganization of our regional brands and that multichannel approach. So we reduced the number of brands. We did some consolidation and that created disruption in the marketplace in terms of existing relationships, in terms of dealers and customers.

We had anticipated that we would lose some volume through that process and I would describe what's happened through the process as very consistent or maybe even a little bit better than what we had anticipated in terms of retention of our dealer network as well as a retention of customers. So I think it's going very well.

On the retail side, this year was really about preparation for the future. So we're actively repositioning the Mycogen brand in retail. Part of that process is kind of turning over the product portfolio and we're mid-step from that. Last week, I had the opportunity to participate in a kickoff meeting with several of our key channel partners in the western Corn Belt there in Johnston. And we were kind of reintroducing the Mycogen brand to them, sharing what our plans for the future are for the brand.

We introduced 42 new hybrids. So really excited about the products that we're putting on the table for them. And also, working on building our business plans for 2020. So 2019 was really a transition year for Mycogen and 2020 is about really going out there and aggressively ramping up in the channel as we build that brand.

And the thing I would emphasize is, you know, as we think about 2019 and how the seed year turned out, you know, we've had very good insight, as you say, into kind of our relationship with farmers. We felt very comfortable how our order activity for both corn and soybeans had proceeded throughout the year. And as we went through the changes in the spring, obviously, a lot of farmers, you know, they were switching hybrids, potentially switching crops or flat out going into preventive planning.

You know, we feel comfortable with how things have turned out. So we have a good understanding of the numerator when you talk about share. The denominator is a little uncertain right now, but we feel like we fared very well through the transition this spring and all the changes. And I think that direct relationship with farmers really played out in our favor.

Operator

Thank you. We'll go next to Joel Jackson with BMO Capital Markets.

Joel Jackson
BMO Capital Markets, Equity Research

Hi, good morning. One of your seed competitors was talking about a bit of price compression and some of the Xtend premiums. Could you give a little bit of update on what you're seeing on pricing for Xtend and maybe how that will carry through for pricing for E3? Thanks.

Jim Collins
Chief Executive Officer

Thanks, Joel, for the question. Great to hear from you. We were talking a moment ago about pricing and competitive pressures that went on in the market. And it really was about kind of tied to that whole Xtend portfolio. So we feel good about our conversions. We feel good about our product performance. And as we've talked before, we're about 65% or so of our lineup converted over to that. So when I look overall kind of at soybean pricing, we were probably down a point, 1% kind of year-over-year. And that is a direct response to that competition that was going on in that market.

So it's hard for me to talk about kind of where others' motivations were. But I can tell you we have some of the best performing products in our A-series line up. And that really allowed us, I think, to hold our own in a lot of cases when things got really tight.

And then on your pricing around Enlist, it's a little early for us to be talking about how we're going to price that product. We've got some great demonstration going on out in the marketplace. We have a lot of really strong pent-up farmer demand that's coming to us about their excitement about the system. And we'll take a fresh look at that here at the year-end and compare that to, okay, what varieties are we going to have available? What are their performance attributes in terms of yield and disease packages that will be on board. And then we'll set the price accordingly, along with all the benefits that the Enlist system brings in terms of convenience, ease of use, peace of mind, those types of things.

Operator

We'll go next to Christopher Parkinson with Credit Suisse.

Christopher Parkinson
Credit Suisse AG, Research Division

Thank you. Just given the optimism for 2020 that everybody's talking about, just how should we think about the potential effects on your 4Q order book versus what will actually end up boosting 2020? On one hand, I think we're facing a very tight fall application, which may limit preliminary decision-making. But on the other, farmers are naturally going to want the best hybrids as early as possible and lock those in. So I know it's tough to calibrate, but just any initial thoughts on this evolution will be appreciated. Thank you.

Jim Collins
Chief Executive Officer

Thanks, Chris. As we think about the second half of 2019, we've factored in what we believe is an appropriate level of -- we've got some great tailwinds coming from our product pipelines. We've still got synergies to deliver at the end of the year. And that is then tempered by some concerns that as this season will very naturally go long just because everything got in late and farmers are going to – they'll keep crops in the ground as long as they possibly can to milk as many degree days right out to the end as possible. And that could close windows that would allow for fall apply crop protection, as well as nitrogen product.

But we feel like we've called that right. And that's the second half that we've out-looked basically around sales -- about reported sales down about 3% versus previous year. And it puts us on a full year basis of about flat when you look at just price volume. So we think we've got that dialed in.

In terms of then costs for setup for 2020, a question earlier was about do you have any issues around winter production. We don't think so. We think we've got the right seed in the right place for what we're going to need for 2020, and then all the other reasons why we might see a return to something more normal in North America.

Operator

Our next question will come from Jonas Oxgaard with Bernstein.

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

Morning guys and Megan. Two-parter on Enlist if you don't mind. The first one is just technical. What is a unit and how many of those do you tell total? Then the real question is what kind of pricing did you see on Enlist so far, premium over other varieties and do you expect that to maintain or improve next year?

Jim Collins
Chief Executive Officer

Great. Yes, Jonas, a unit that we talk about, that's a bag of seed. In corn, 80,000 kernels. In soybeans, 140,000 kernels or seeds per bag. And in soybeans, a unit – one bag of soybean seed will plant about one acre of field. So the seed industry typically talks in terms of units. It's a standardizing way to talk about our lineup and our products.

And when it comes to product lineup, maybe I'll start but I'll ask Rajan or Tim – maybe Rajan to say a few words. We're clearly in the mode right now of exploring the integration of that trade into the Elite Pioneer and the Corteva Germplasm that we have in-house. Due to the timing of the merge and the antitrust windows, we were sort of precluded from having any really good conversations and understanding of that technology until the deal closed last – in September of 2018 – 2017. So we really have now just had this one first good season to take a strong look at that.

And so as we begin to ramp in 2020, we'll utilize Germplasm that Dow already had, Dow Sciences had and had begun that work in the Mycogen brand. Some of our partners out there are -- the other regional brands have had a look at that and have begun working with it. And we've got some partnerships with others where we can in-license technology for a few years until we can get that breeding engine that everybody really knows and respects out there in the market, until we can get that breeding engine up and running, and start those conversions.

So we might go through a couple of years where you're going to see a Corteva branded Pioneer, Mycogen branded lineup in Enlist that won't compete with the Elitist of products that are out there. But it won't take us long to get right back up on that curve. Rajan, anything else you'd add?

Rajan Gajaria
EVP, Business Platforms

So Jim, I think you covered it. Just a couple of things to add. One is, Jonas, just do want to reinforce the importance of Enlist as a system. So when we think about our product lineup, we need to talk about our choline chemistry and very excited about that from a capacity standpoint. The product is working very well in the field for cotton, as you know.

From a germplasm perspective, Jim covered it. I think really we've got top quality germplasm. We're introducing Enlist with that. And even the partnership that we have with MS Tech, I did want to reinforce that we get very good quality germplasm working with our partner, MS Tech. So excited about the entire system, the portfolio that we will be able to bring to the market and seeing how we can ramp up Enlist starting next year.

Operator

And our final question will come from John Roberts with UBS.

John Roberts

Thank you. Can you hear me?

Jim Collins
Chief Executive Officer

Yes. Good morning. John.

John Roberts
UBS Investment Bank, Research Division

Morning. Last night on the results for CF Industries, they indicated the damage to the U.S. foreign market has been so unprecedented that it could take more than one year for the U.S. markets to recover. I don't know if you would agree with that, that maybe we're headed for a couple of years of above average planting and maybe above average trend on pricing for the corn inputs markets.

Jim Collins
Chief Executive Officer

It's a great question John. We've seen years before where we had maybe not as late and as big a decline as we saw in 2019. And I've seen the next year every bit as good, if not even better. So given the amount of work that growers have done to improve drainage, and the equipment that they have, and the performance of our products, it feels like to me that almost every year, short of anything on the downstream market demand side of all of this, it feels like that we've got a lot of capacity and a lot of capability.

And there's a little bit of land I would say in that Nebraska market where you had the horrific flooding and you had some sand that got up out of the rivers and kind of got into some pretty good farmland. And growers are working hard to try to save that. But when you think about the total of all the millions of acres that are out there, you won't really feel that piece nearly as much. So I would say no. I would believe that this market could come right back to where it has been previously and it's really just a function of how many acres go in the ground and the yield that we're able to get off of those acres.

Megan Britt
Investor Relations Director

So Augusta, I wanted to let you know that we can take another question.

Jim Collins
Chief Executive Officer

Yes, we probably have time for one more question.

Operator

Okay, great. And that will come from PJ Juvekar with Citi. Please go ahead.

Jim Collins
Chief Executive Officer

Morning PJ.

PJ Juvekar
Citigroup Inc., Research Division

Thank you for taking my question. Good morning, Jim, and Greg, and Megan. Just a quick question on CPCs. You mentioned high inventories and pricing pressure. I mean have you already seen that pressure or do you think that is yet to come for the next season? And then secondly for Rajan, how big is your seed treatment business today and how big you think it can get? Thank you.

Jim Collins
Chief Executive Officer

So on crop protection chemistries, clearly inventories in North America are going to be a little bit elevated just because we didn’t create the pull through on those early spring applied chemistries as well as we've got a really strong business in the nitrogen fixing area. So on inventories, and quantities, and volumes we'd say we're probably a little elevated going into the fourth quarter.

And we've dialed in the fact that if acres go long and late, you may not get some of that late season prep work that growers have traditionally tried to do to maybe take some of the heat off of the spring. So you get some fall-applied chemistry that goes out and you get the fall-applied nitrogen in our nitrogen fixation products. But we think we've got that dialed in about right for our outlook.

If I think about the rest of world, we've had a great start in Latin America. Channel inventories there don't appear to be elevated and are right about where they need to be. And you look at our results in the rest of the world, we had some pretty strong overall performance.

And when I think about value and pricing, and how that business really turned out, pricing crop protection was about flat for us globally and up mid-single digits if you just look at the rest of the world. So overall value there. And I'm sorry, what was the second part of the question?

Greg Friedman
EVP & Chief Financial Officer

Seed treatment.

Jim Collins
Chief Executive Officer

Seed treatment. Rajan, do you want to talk a little bit about our seed treatment business?

Rajan Gajaria
EVP, Business Platforms

Yes, I just mentioned that. Very exciting actually. I see seed treatment continuing to grow. We are expecting more than a double-digit growth this year in the first half. We have seen that growth across the globe, but definitely pronounced in Latin America. And so very excited about that, PJ. And just building on Jim's point about pricing. Where we see new products being launched, we are able to capture value in all parts of the globe. And North America, given the market dynamics, it was tough. But I think there is cautious optimism on crop protection pricing across the globe.

For example, if you see Asia Pacific, the products of spinosad, which we are seeing there, we have seen as much as 10%, 11% price increase, a double-digit price increase as a data point. So where there is value for new differentiated products across crop protection, across the globe, we are seeing price increases.

Megan Britt
Investor Relations Director

So that's our last question for this conference call. I'd like to thank everyone for joining us on the call today.

Operator

That does conclude our conference for today. Thank you all for your participation. You may now disconnect.