02-May-2024

Corteva, Inc. (CTVA)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. My name is Mark, and I will be your conference operator today. At this time, I would like to welcome everyone to Corteva Agriscience First Quarter 2024 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speaker remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the call over to Kim Booth, Vice President of Investor Relations. Please go ahead.

Kimberly Booth

Vice President-Investor Relations, Corteva, Inc.

Good morning and welcome to Corteva's first quarter 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 V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Thanks, Kim. Good morning, everyone, and thanks for joining us today. We continue to be very pleased with the progress we're making executing our strategic plan, including items such as the Enlist Technology, Biologicals, increased investment in strategic innovation, and our productivity and cost actions. Today's focus will be on our first quarter performance and also some insights into how we see the rest of the first half and year unfold.

Let me start with the bottom line. While the crop is not yet fully planted in North America, 2024 is playing out mostly as we expected. And so, we are reaffirming our full-year guidance, which we announced in early February, and we remain on track to meet our 2025 financial framework.

Globally, from an industry perspective, we have relatively constructive fundamentals. We continue to see record setting demand for grain, oilseeds, feed and biofuels. In order to meet this growing demand, farmers are investing in premium seed and crop protection technologies to enhance and protect yield.

Our Seed business is having a very good start to the year. Organic sales are up 5% and price is up 6%, reflecting the value our seed technology consistently delivers to farmers. Our Seed order book reflects strong demand for our product lineup. We are planning to bring about 500 new products to the market this year, with approximately 300 new seed hybrids and varieties.

Factored into our guidance for the year is the fact that farmers in the US are projected to shift planted area from corn to soybean, resulting in a projected increase in soybean area of about 3.5%. If current trends hold, about 60% of all US soybean acres will be planted with our Enlist technology due in 2024, quite an impressive feat in less than five years where we continue to be the number one selling soybean technology in the US.

On the Crop Protection side, ample supply and the residual effects of destocking are creating a more competitive environment. This is coupled with farmers making their purchases much closer to the application window, resulting in a delay in volumes. But all signs point to volume growth in the second half, particularly in Latin America, as the channel inventory imbalance in remaining regions is expected to stabilize.

At a high level, our Crop Protection business has made significant performance improvements since 2021. By the end of 2024, we anticipate that we will have added $1 billion of new products and Biologicals sales, exited $500 million of lower margin products, and improved EBITDA margin by about 200 basis points in that three-year timeframe. Our differentiated Crop Protection portfolio will continue to create new pathways to value creation, and this has been strengthened by our industry-leading Biologicals business.

As a result of targeted portfolio actions and strategic investments in fast-growth market segments, our portfolio differentiation mix has grown from about 50% to an estimated 60% in 2024. We also continue to execute on the optimization of our global crop protection asset footprint, where we are estimating annual run rate savings of $100 million by 2025. As I said, we expect the crop protection industry to return to volume growth in the second half. Mix enrichment driven by our new products and Biologicals, as well as the cost actions I mentioned, will drive margin improvement in our Crop Protection business in 2024.

A final point on controlling the controllables. In 2024 and again in 2025, we're still expecting to see between $350 million and $450 million of benefits from our self-help levers. These actions continue to drive value creation for the company and are providing margin enhancement throughout the ag cycle.

Finally, I'd like to note that in about a month, Corteva turns five. We'll be celebrating not only our fifth anniversary, but also the impact we've had on farms around the world over that time and the value that impact has created for farmers, for shareholders, and for the world at large. It's been a remarkable journey in which we rolled out more than 1,500 new and next generation products and technology to our 10 million global customers. I'm proud to say that together with our 23,000 employees, we built one of the most competitively advantaged agricultural technology portfolios in the industry. And we remain optimistic about the future of agriculture and the future of Corteva.

And with that, let me turn the call over to Dave.

David John Anderson

Chief Financial Officer & Executive Vice President, Corteva, Inc.

Thanks, Chuck, and welcome everyone to the call. Let's start on slide 5, which provides the financial results for the quarter.

As Chuck said, and you can see from the numbers, the results for the quarter were largely in line with expectations with both sales and operating EBITDA down from prior year. Organic sales were down 6% compared to last year with Seed growth offset by Crop Protection. Seed volume gains in the first quarter in North America were offset by Seed volume declines in all other regions. And as expected, Crop Protection volumes were down double-digits against a strong first quarter 2023 comparison.

We're obviously pleased to report another first quarter with more than $1 billion of operating EBITDA, in part due to benefits from improved net royalty expense and productivity savings. However, operating EBITDA was down 16% compared to prior year and EBITDA margin for the quarter was 23% or down approximately 200 basis points versus prior year with margin expansion in Seed offset by Crop Protection headwinds.

Let's go to slide 6 and review sales by segment. Seed net sales were up 2% to nearly $2.8 billion. Organic sales were up 5% on broad based pricing gains as we continue to price for value. And global seed pricing was up 6% with gains in every region and across the portfolio. Seed volumes were down 1% versus prior year. Gains in North America, driven by mild weather and strong execution were offset by declines in other regions. Notably, volumes in EMEA were down due to delays in demand associated with unfavorable weather.

Crop Protection net sales were down 20% in the quarter versus a strong first quarter in 2023. The sales decline was driven by residual impacts of destocking in EMEA and Latin America and the shift to just-in-time purchasing in North America, pushing sales out closer to the application window, which is largely in the second quarter. Crop Protection volumes were down 18% in the quarter, including the impact of strategic product exits. Pricing was down 3% compared to prior year, driven by competitive pressures and tight channel inventory management. Crop Protection pricing in EMEA, EMEA was up 4%, largely in response to currency impacts.

Slide 7 illustrates the significance of the last week of March for seed deliveries in the US. With mild weather in much of the United States during March, pioneer seed deliveries tracked ahead of prior year, putting 2024 closer in line to the first quarter of 2021 and 2022, which we would consider a normal delivery pattern versus last year's delays.

The favorable product mix, coupled with seasonal price increases, translated to a strong Seed operating EBITDA margin for the quarter, approximately 300 basis points above last year. With that, let's go to slide 8 for a summary of first quarter operating EBITDA performance. For the quarter, operating EBITDA was down approximately $200 million to just over $1 billion. Again, largely in line with expectations. Pricing gains, coupled with improvement in net royalties and productivity actions, were offset by volume declines and cost in currency headwinds.

The $22 million of cost headwinds in the quarter was related to higher Seed commodity costs and modest Crop Protection inflation on input costs, reflecting the sell through of higher cost inventory. Importantly, based on raw material purchases, we still expect to deliver approximately $100 million of savings for full year 2024 from Crop Protection input cost inflation. SG&A for the quarter was up approximately 1%, primarily from a full quarter of SG&A from the Biologicals acquisitions. Excluding acquisitions, SG&A was down more than 2% versus prior year as we maintained disciplined spending.

With that, let's go to slide 9 and transition to the setup for the remainder of the year. I want to share the key assumptions for the first half and second half of 2024. We expect sales for the first half to be down low-single digits with EBITDA flat, slightly down versus last year. Seed is expected to continue the momentum from first quarter and deliver solid growth in the first half of the year led by North America on a strong product lineup.

Crop Protection will continue to experience impacts from the shift to just-in-time demand and residual destocking and will likely be down in the first half of 2024 compared to the prior year. Both Seed and Crop Protection are expected to experience cost headwinds through the first half of the year related to higher Seed commodity costs and Crop Protection input costs. These market-driven cost headwinds will be partially offset by benefits related to reduced net royalty expense and also productivity actions. SG&A and R&D investment are both expected to modestly increase in the first half of 2024 compared to last year.

Now, turning to the right side of slide 9, regarding the second half of the year, we expect double-digit sales and EBITDA growth driven primarily by Crop Protection, partly as a result of the comparison to 2023 second half where volume and price combined were down 16% from 2022. In Seed, we expect a rebound in Brazil Safrinha corn area after a reduction in the 2023-2024 season due mostly to weather. We expect Seed results in the second half to be in line with historical pattern, meaning likely a small EBITDA loss in the second half.

Crop Protection volume gains will drive much of the growth in the second half, with pricing expecting expected to remain challenged. We expect Crop Protection volume growth in the second half to be enabled by some market stabilization in Latin America. Our base case assumption is for a volume uptick year-over-year in Brazil, led by new products, Spinosyns and Biologicals.

And available data suggests channel inventories are trending down in Brazil. While they're still higher than historical average, inventory levels have come down versus 2023 year round. So, the channels making progress towards a more normalized inventory level and the demand at the farm gate in Brazil remains healthy and the expected increase in planted area supports additional Crop Protection applications. So, the second half outlook for Biologicals growth is largely driven by Stoller, which has a strong market position in Brazil.

We expect to see input cost deflation in Crop Protection during the second half of the year. Coupled with productivity and cost actions, including benefits from the footprint optimization project, we anticipate a cost tailwind for Crop Protection. And as a reminder, we expect an increase in SG&A spend in 2024 driven by normalized bad debt and compensation accruals. We also continue to increase the investment in R&D. So, the balance of improved market conditions and continued execution on controllables will drive second half growth.

Together with the roughly flat first half and double-digits second half EBITDA growth, we remain on track for full-year 2024 operating EBITDA guidance in the range of $3.5 billion to $3.7 billion. But the path will be a little different than our original assumptions. Specifically, in addition to more volume growth, we now expect total company pricing to be slightly down for the year, with Crop Protection pricing more than offsetting the low-single-digit price gains in Seed. And while we're expecting total cost to be marginally higher for the year, an increase from our original assumption, we remain on track to deliver savings on our controllables. $100 million reduction in net royalty expense, $100 million of Crop Protection input cost deflation, and $200 million from productivity and cost actions.

So, let's now [audio gap] (00:16:15) slide 10 and summarize the key takeaways. First, operating EBITDA performance for the first quarter was in line with expectations led by the strength of the Seed business. And while first quarter 2024 results were down versus prior year, we remain on track to deliver our full year 2024 guidance, including sales and earnings growth. And after a standout performance in 2023, the Seed business momentum continues in the first half of 2024, driven by pricing for technology and continued reduction of net royalty expense.

Looking forward to the second half of the year, Crop Protection cost actions and some market improvement will drive much of the growth. And finally, the strong first quarter cash flow results supports our ability to deliver the midpoint of our free cash flow guidance of $1.75 billion or approximately 50% conversion.

With that, let me turn it over to Kim with an announcement about a significant upcoming event. Kim?

Kimberly Booth
Vice President-Investor Relations, Corteva, Inc.

Thanks, Dave. We're excited to announce that our 2024 Investor Day will be held on November 19 in New York City. The management team will provide updates on the company's strategy and financial targets, along with highlights showcasing our innovation and pipeline. We look forward to seeing many of you at this event in November.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Vincent Andrews from Morgan Stanley. Please go ahead.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning, everyone. Chuck and Dave, thanks for all the updates on the first quarter. Could you help us just understand your confidence in the line of sight you have in sort of bridging the first quarter to the second quarter to make that half. Clearly, Seed order book, you've got a good line of sight on, but maybe talk a little bit more about your confidence on the Crop Protection side. Thanks.

Charles V. Magro
Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. Good morning, Vincent. So let me start. I'll give you the backdrop and then Dave can help you with the bridging. So, first of all, let me say that we're still feeling good about the ag economy. We've got record demand, on farm demand looks very steady and healthy. And generally speaking, and this is a broad statement, farmers are still making money. They're off their peaks, of course, but this is a pretty healthy macroeconomic environment for them to be operating in.

I'd say the other thing that is trending well for us is we're feeling quite good about what we call controlling the controllables. So, there's this notion last year, if you recall, 2023, we removed about $500 million from [indiscernible] (00:19:33) in terms of cost reduction, productivity improvements, royalty improvements. So, this year, we're targeting $350 million to $450 million, and a lot of that is coming together quite nicely.

And then if you just look at the Seed business, it's having a very strong year, especially what I'd say out in North America, and the business continues to grow organically. And I think that's quite important as we bring in new technology. And that technology, of course, is being – have quite a high uptake on the farm. So, I think, given that backdrop, when we look at it, we felt it was important to look at the full year, first of all, and we think the year is unfolding pretty much as we expected. So the $3.5 million to $3.7 million would hold. And then looking even past 2024 into 2025, the value creation framework we laid out, we still feel very comfortable about that.

And, Dave, do you want to now talk a little bit about the quarter one, quarter two, and the bridging?

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

Sure. Good morning, Vincent. So it's really a continuation of some of the themes that we talked about for the first quarter including the strong North America Seed despite the anticipation, obviously, of reduced corn acres. But that's going to continue to be very positive. We're going to see the flow through and the benefit of that in terms of first half results.

There's some improvement that's anticipated in the Crop Protection business, but we're still, as I mentioned I think in the prepared remarks, expecting Crop to be down both revenue and EBITDA on a year-over-year basis. So we're going to finish – second quarter is going to be an improvement in the trend line on Crop Protection and in terms of the variance from prior year, but not enough to offset that first quarter. So the first half will be down in that segment on a year-over-year basis.

As you know, we've got only modest improvement included and expected for the Biologicals business. That's really going to be much more significant in the second half. The other thing is, in terms of the benefit of cost deflation and particularly on the Crop Protection side, as you know, that's really weighted to the second half as well. So the bridge, if you will, to the first half is really, for the most part, a continuation of the themes that we experienced in the first quarter. And then the second half, it really becomes much more of a volume story for both Seed and Crop and much more of the productivity and the live through, if you will, of the deflation benefit that we anticipate up Crop Protection. So, hopefully, that's helpful.

And by the way, just as a reminder, just in terms of our overall guide and kind of a restatement or context is that we're anticipating, again, we stated this at the beginning of the year and we affirmed that in our conversation or comments earlier, which is around an 80/20, if you will, split in terms of EBITDA for the first half. So, think of that as flat to slightly down for the first half. Thank you.

Operator: Your next question comes from the line of David Begleiter from Deutsche Bank. Please go ahead.

David Huang
Analyst, Deutsche Bank Securities, Inc.
Q

Hi. This is David Huang here for Dave. Can you just talk about the pricing dynamic in US soybeans this year and how competitive it is and if you're seeing any pressure?

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

I'll turn that over to Tim.

Timothy P. Glenn
Executive Vice President-Seed Business Unit, Corteva, Inc.
A

Yeah. I mean, my first answer is always the markets are always competitive. So, no question about that. And we operate our branded business, especially at the high end of the market. We're selling a premium product top performance. And so I don't know if I'd say it's any more competitive than what it typically is, but soybeans are more so than corn in recent years, competitive, and there's always lower cost options in the marketplace.

So, I think our teams have done a very good job of creating demand and filling that order. I think we're obviously continue to be focused on getting paid for the value that we deliver to our customers. And we're fortunate we work with a group of customers who appreciate that value. And we're going to continue to focus on it. But my answer is it's competitive. It's always competitive. There are always lower cost alternatives. But farmers are very, very interested in in planting high performing products.

Operator: Your next question comes from the line of Joel Jackson from BMO Capital Markets. Please go ahead.

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

Q

Good morning. [indiscernible] (00:24:39) a bit of a strategy question on Seed, so we're all aware of what's going on with dicamba in US or [indiscernible] (00:24:46) you're obviously a seed player who produces seed with the different traits [indiscernible] (00:24:52). What strategically do you do here? What is your view on what will happen to dicamba for 2025 and for the rest of the year? How does that affect your own seed growing strategy now when are contracting our seed growers this year? Are you going to increase your usual set of seeds so you have different variations across [indiscernible] (00:25:13) or are you going to – maybe talk about what you do in this uncertainty. Thank you.

Charles V. Magro
Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. Good morning, Joel. Let me give you the overall context from a Seed strategy and then Tim can answer the question on sort of the current dynamics and what we're finding from an order book perspective. So, we said it already a couple of times today. I think we're very pleased the Seed performance and we are expecting growth again in 2024 and margin expansion and it's really coming down, I think, for us.

So we have shifted our strategy and it's been a long investment over some time. But when you're launching 300 new seed, hybrid and varieties, almost every year and we're able to price for that value that farmers are seeing in terms of productivity and yield and disease resistance, insect resistance, I think that's the best of all worlds for all the players here.

So, our strategy, simply put, we've moved away from being sort of a net technology purchaser to a net technology seller, and the out licensing is still small in terms of revenue, but it is ramping up and Enlist would be our first sort of franchise that we're really getting momentum there and we've got lots of partners that are buying that technology now. Canola and corn are ramping up nicely and we like that overall seed strategy and we've communicated that even this year we're expecting another $100 million of net benefits in terms of lower net royalties. And this is that journey to neutrality that we said we would be on towards the end of the decade.

I'll turn it over to Tim now, but just one last comment, we really haven't seen lower cost flow through the Seed business yet and we said that that wouldn't happen until most likely in 2025. We're still on plan for that. So, you've got this wonderful business that is selling technology, but eventually you're going to see some lower COGS as well as that works through our hedges and how we kind of manage the cost of product that we have to in 2025 and in 2026. So there's some new and exciting things that'll come and we'll talk more about that at our Investor Day in September. But, Tim, maybe the current order book and the dynamics you're sensing in the marketplace.

Timothy P. Glenn
Executive Vice President-Seed Business Unit, Corteva, Inc.

A

Yeah. I mean, it's certainly one of the things that we've been looking at closely for the last several months as the questions around what the future of dicamba label looks like. So, again, just to reiterate this year, I'd say that the decision had a very minimal impact on what was planted this year. So, in terms of the commercial crop that farmers are planting, by and large, when the when the decision was made on the dicamba label, seed was purchased, it was probably paid for; and I think the market felt like that there was an adequate supply of dicamba in the channel for those who want to spray.

Going into next year, clearly, it's some big questions to answer there. First thing I'd say is it is still too early to speculate on how the market fully plays out, given the uncertainty of whether dicamba has a label or if they do what it looks like in terms of over-the-top applications on the soybeans. So, we've stayed close to our customers and try to gauge what their impact or what their thoughts are there.

For those customers who were still planting Xtend soybeans and [indiscernible] (00:28:35) technology say that that year they kind of fell into three places. There are some are saying I'm done, I'm ready to switch. And I would anticipate that that part of the market's going to – will shift to Enlist as we go into next year. There are some who are going to stick with it in anticipation that there will be the opportunity to use dicamba in the future. And they're satisfied with the products and want to stay there.

And I'd say the of farmers are probably stepping back and looking at the situation and playing a wait and see. They're months away from having to make a decision on seed purchases, and so they're going to wait and see what that looks like, what that field looks like going forward. In terms of what it meant for our decisions on seed planting. As we plan our seed crop right now, we always plan with the opportunity for some upside on demand, never quite certain how the weather is going to play out and impact your supply. So, I would say we've taken an approach where we will have upside on our Z-series and A-series products if the demand is there going forward. So, we we're positioned well for that.

And you got to remember that there's over 100 licensees who have access to the technology, very supportive. And no doubt collectively, I would say that as seed producers, we've all taken a position where I would expect that there'll be some upside supply should demand switch, but it's one of those things that we all got to kind of sit back, wait and see.

We are obviously staying close to our customers. We will continue to go out there and help them understand the value of our technology. And I think as we get into the seed selling season as we go into, say, September, October, November of next year, farmers are going to be faced with that critical decision based off of what the opportunity for using dicamba in Seed looks like.

Operator: Your next question comes from the line of Kevin McCarthy of Vertical Research. Please go ahead.

Kevin W. McCarthy
Analyst, Vertical Research Partners LLC

Q

Yes. Thank you and good morning, everyone. We've been reading in recent weeks about the proliferation of corn stunt disease in Argentina. So, I was wondering if you could talk about whether that might have any impact on Corteva, either directly through insecticides or indirectly through corn market dynamics. And part of the reason I ask is when we look at your Crop Protection volume trends by product line is quite a wide divergence or was in the quarter, looking at insecticides down 5% versus 25% for herbicides. So maybe you could just kind of speak to the breadth of those numbers. Thank you.

Timothy P. Glenn
Executive Vice President-Seed Business Unit, Corteva, Inc.
A

Hey, Kevin, this is Tim. Let me talk – let me address it from the Seed standpoint first. Obviously, this is an emerging issue and I'd say it's rapidly escalated as we've gotten later into the growing season, and it's clearly impacted farmers' yields. And I think that's what's being reported today. And we're still in the middle of harvest, so I can't speculate on what the impact is on the grain harvest. I won't even try to go there.

We do have experience with corn stunt. It's the same issue we've dealt with in Brazil for the last several years. I just, I'd say we know that there's always been presence of leaf hoppers in Argentina, so it never materialized where it became a commercial issue. And so, from this year standpoint, I would say we're good from a seed production standpoint. Our seed crop was not impacted by corn stunt but, clearly, some farmers were. And so we're going to continue to work with our customers.

We are in the field right now working closely as farmers harvest the crop. Obviously, we're going to have to continue to work with them as they go and make their next season's decisions. The planting window in Argentina is pretty wide. You can have early planted corn, say, in September, all the way through the end of the calendar year. And so, farmers are going to have to evaluate what this means for their operations and whether they will plant the same level of corn as they do last year.

Roughly speaking, Argentina is about 8 million hectares of corn. It's very important. 70% of that goes into the export market more or less. And so, I think the risk from a seed standpoint is how many factors of corn do they plant as they get into that window, say, late third quarter and into the fourth quarter. And I would anticipate that farmers are going to kind of sit back and wait and see what the populations of the leaf hoppers are and evaluate what that environment is as they get closer to making those decisions.

And so, I'm going to pass it to Robert to talk about the impact on the insecticide portfolio.

Robert King
Executive Vice President-Crop Protection Business Unit, Corteva, Inc.
A

Thanks, Tim. The herbicide stories, you got to start with our portfolio shifted over this time, the exit of several molecules, [indiscernible] (00:33:54) being one of those. The second thing around that is Q1 2023 was a record herbicide quarter for our company. Couple that with two things. North America is really a timing. Enlist continues [audio gap] (00:34:09) really high demand. It will be up for the full year. Keep in mind there will also be added acres in soybeans, but it's a very trusted technology by the growers and it's something that we see that will continue to grow this year.

Overall, its volume for the season is in line. Keep in mind we had a pretty good load in Q4 of last year. So when you track it for a season of the crop, we're in line with where we need to be. So that one [ph] jack that up (00:34:39) on the timing.

In Europe, think about what the weather that's been going on there specifically in Northern Europe. So, we're behind on some applications for cereal herbicides and that's something that we think will work out through the year. But there's also a few acres short of wheat that was planted there this year as well here.

You roll that together and it begins to tell the story that we're really in a good place for herbicides as we look at it on a crop year and we expect everything to be in line for the full year. And then keep in mind, as you talked about, you ask about our insecticide side just in comparison to that, this one is really a testament to the Spinosyns franchise and the strength that technology brings. It continues to perform better than the market. And it is it's something that the growers are pulling as it's a technology that gives them advantage on the farm. So, hopefully, that helps.

Operator: Your next question comes from the line of Frank Mitsch from Fermium Research. Please go ahead.

Frank J. Mitsch
Analyst, Fermium Research LLC

Q

Hi. Good morning. And I do love the graphic for the Investor Day. Dave, you indicated that your royalties are expected to be $100 million benefit for 2024. We're over $30 million, as you are in 1Q. Should we think about the $100 million being a floor with potential for greater benefits impacting 2024? And then also, I don't recall any comments regarding FX, which was fairly negative in 1Q. If you could offer some thoughts on FX profitability impact for 2Q and beyond, that would be helpful. Thank you.

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

A

Sure. Yeah. So, regarding the first part of your question, in terms of the royalties, those were really weighted to the first half due to North America. So and we're on track, Frank, as you said, and I think we stated in our remarks to the $100 million target, which is, by the way, a royalty benefit. So it's an expense reduction as well as royalty income increase on a year-over-year basis.

Regarding the second part of your question, regarding foreign exchange, the first quarter was really due to the Turkish lira, and we had pricing that mostly offset that impact. So, part of what we look at in terms of the pricing on the [ph] PVC (00:37:14) was really offsetting that currency. We're going to have a small benefit, actually, in currency anticipated for the second half, and that's part of what's built into our forward guide. Hopefully, that's helpful.

Operator: Your next question comes from the line of Steve Byrne of Bank of America Securities. Please go ahead.

Salvator Tiano
Analyst, BofA Securities, Inc.

Q

Yeah. Thank you. This is Salvator Tiano filling in for Steve. So, I want to ask a little bit about pricing outside of the US. And the first part is you have pretty good pricing, well, price mix. And can you discuss a little bit how much of this was like-for-like price increases versus increase, as you mentioned, for example, in Turkey to offset the FX or just the farmers upgrading to new hybrids and varieties. And what is driving this, especially since farmer economics outside of the US are a little bit worrisome here, we think.

And the second part of the question is, can you let us know how do European seed price as compare to US price currently? And what is, in your view, the upside to pricing once you start marketing gene-edited products?

Charles V. Magro
Chief Executive Officer & Director, Corteva, Inc.

A

Okay. So, look, I'll have Tim talk first maybe about our strategy on how we price for value, and then, we can talk a little bit about what we're seeing in each of the regions. Tim, go ahead.

Timothy P. Glenn
Executive Vice President-Seed Business Unit, Corteva, Inc.
A

Yeah. So on the price per value, I mean, that's – we anticipate that over time that we're going to be pricing in that low-single-digit range based off of the value of the new products that we bring to the market every year. So, we plan to have 20%, 25% of our lineup in new genetics that open the door for value share with our customers and gives us that pricing power.

And I think I had a little bit of difficulty following the question, but I think you asked about the relative pricing between Europe and North America. So, in Europe, I would say that, as Dave mentioned, Turkish lira was one of those inflationary currencies that where we added price to offset currency and we still would have had low-single-digit price increase in Europe, excluding those countries where we've had that price to offset currency devaluations. So, there's still positive momentum there.

And in terms of absolute pricing differences between the two regions, really not comparable because they're completely different products and technology packages. The majority of our products in North America would have some biotechnology associated with it, and virtually none in Europe would. So. So really, it's not an apples-to-apples comparison, but both are priced fairly for value and for their marketplace. So that's how we operate around the world. And I'd say the philosophy is very consistent between the regions, the geographies. It's all about bringing more value to our customers. And when we do that, then we have the opportunity to earn a share of that value back through pricing.

Operator: Your next question comes from the line of Chris Parkinson of Wolfe Research. Please go ahead.

Chris Parkinson
Analyst, Wolfe Research LLC
Q

Great. Thank you so much. Can you just [audio gap] (00:40:45) on the latest update on how you're thinking about COGS for both CBC as well as Seed, obviously on the ladder, [indiscernible] (00:40:54) you have a few hedges this year. So, could you just think about, on a preliminary basis, how should we think about that as we progress throughout 2024 and into 2025? Then on the CBC side, just given the number of turns of inventory you have on a per annum basis, how we should be thinking about that second half onwards? Thank you so much.

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

So maybe I could, Chris, just give you some – this is Dave – give you some perspective on that. I think first of all, when you look at our prior guide to this guide, we do have some increase in cost on a year-over-year basis. And that's associated with the Seed business and the assumptions around the second half, and particularly, Safrinha volume, which the anticipation is that we're going to see a recovery market recovery there in terms of that volume.

And we've got some higher cost inventory that's going to flow through in terms of cost of goods sold. And that's part of just carrying some historic higher production costs, but also it's a transition from older technology to newer technology for that market, which really will set up very, very well for improved cost in the Seed business in that market into 2025 for the 2025-2026 season. We stand back and look, overall, we're absolutely on track in terms of productivity for the full year of about $200 million.

On the Crop Protection side, in terms of – and I may have mentioned this earlier. In terms of the cost inflation, in other words, ingredient or raw material cost deflation, we anticipate $150 million benefit in the second half. So that'll tie to our expectation of $100 million of deflation benefit for the full year. So kind of under the banner of what we call, call or speak to in terms of controlling the controllables [ph] where cost (00:43:02) is a very key element of that. We're absolutely on track.

With the exception of what I mentioned about the Seed business in the second half, where we've got also a fairly significant volume uptick, again, associated with that market, if you will, improvement the market recovery assumption we have for Safrinha. And for both businesses, what it does is it sets up for additional favorability for 2025 because we'll see now some of the, call it, additional deflation benefit in Crop Protection, as well as now some of the commodity cost improvement as well. The other cost actions improvement for 2025 for the Seed business. Again, I hope that helps.

Operator: Your next question comes from the line of Adam Samuelson of Goldman Sachs. Please go ahead.

Adam Samuelson
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Thank you. Good morning, everyone. I was hoping to maybe dig in a little more on the Crop Protection side and some of the pricing dynamics that you're seeing there. And just how much you think that just reflects some of the deflation in some of the active ingredients and on the generic side versus an actual kind of change in the competitive landscape in any of your kind of key product lines?

And maybe specifically in herbicides for Enlist in the US, can you talk to what the attach rate of branded Enlist herbicides is now tracking at to the Enlist acreage that you have in place? And is the value kind of realization on Crop Protection meeting kind of your own expectations from a couple of years ago as Enlist has garnered a much higher share of the soybean market? Thank you.

Charles V. Magro
Chief Executive Officer & Director, Corteva, Inc.

A

Good morning, Adam. Let me give you the overall backdrop and then I think Robert can give you sort of the specifics to your questions. What we'd say is that the there is a lot of competitive tension right now, and it's not one thing. I think it's still the industry working through the global destocking that we've seen. And the good news is there's some green shoots. The US seems to be behind it. We've called out, though, that the market is going back to sort of just in time closer to the application window. So, there's some timing and seasonality there.

Europe is going through the destocking now and it's been through the – in terms of the first quarter and then they've had some difficult weather that we've already talked about this morning and even some mist applications, but I think they're trending in the right direction. APAC been a little bit less impactful. They had some, but not a significant amount, at least not in the products and the portfolios that we participate in.

So, then it comes down to Brazil and the bottom line with Brazil is, is it is still imbalanced. It is trending in the right direction. We're seeing the channel inventories reduced certainly from the December numbers that we've seen early numbers now for the first quarter that are positive and heading in the right direction but Brazil still needs to destock a little bit more and we think that that will happen. It goes without saying, but on-farm demand in Crop Protection globally is still stable and healthy. And that is a very important statement.

So with that now, I'll turn it over to Robert to answer your question on Enlist and the attach rates.

Robert King
Executive Vice President-Crop Protection Business Unit, Corteva, Inc.

A

Thanks, Chuck. Price competition is, as Chuck talked about, is pretty stiff. But our price value continues to be pulled through by the industry and create value on the farm. When you think about our new products and Spinosyns combined and the performance right there they continue to perform better than the portfolio, better than better than industry. And this first quarter was no different.

These things aren't immune to impacts of the environment, of marketing – market environment, etcetera. But then on the specific to Enlist, it continued to have a strong pull, very strong demand. We expect spray rates to be still in that 80% range as we've seen in the past. And we do expect that we'll see continued volume growth this year over last year with this technology. Thank you.

Operator: Your next question comes from the line of Aleksey Yefremov of KeyBanc Capital Markets. Please go ahead.

Q

Thanks and good morning. You got [ph] Ryan (00:47:56) on for Aleksey here. Just wanted to dig in a little bit on the generics in Brazil. I know in 3Q, you kind of saw an influx of imports, which you then called out a little bit of a slowdown in 4Q. Just trying to understand how that progressed throughout 1Q and what you're kind of seeing today. Thanks.

Charles V. Magro
Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. So, look, I think we even called it out in our fourth quarter in February that the generic imports into Brazil have, what I'd call, stabilized to sort of more normal import rates. And – so they're always been part of the market and they've been a larger part in APAC in Brazil, but there's nothing new there. There is some new capacity coming online for some AIs that are coming off patent. And certainly our strategy as a company overall is to sell differentiation, value, agronomic service. And so there's a lot of the parts of the generic market where Corteva is simply just not focused on. So, I'd say that the market fundamentals today when we look at the global CP market and I think this comment applies to Brazil as well, there is there is nothing here that is a structural change that we can see. I think that this has been played out now and what we're seeing are sort of the return to normalization.

The big question is, when will we see that in some of these key markets, specifically Brazil. But the direction is clear after a couple of these data points have now come out that the inventories are receding and we do expect, as we called out, that in the second half of 2024, we should see Brazil volumes start to improve. And then as we get to 2025, we would expect that the global CP industry would return to some level of growth. It's a little early to talk specifically about that because we've got to get through the second half of 2024. But I think that that's what we are kind of assuming as we look forward from second half of 2024 and into 2025.

Operator: Your next question comes from the line of Ben Theurer from Barclays. Please go ahead.

Rahi Parikh
Analyst, Barclays Capital, Inc.

Q

Hey, everyone. Morning. And this is Rahi filling in for Ben. So, I just wanted to look more into [ph] trade down (00:50:17) within the space. So, when farmers have tighter wallets like today, do you see data on farmers shying away from Biologicals and mainly just buying CP that they fundamentally need? I believe it plays into Seed when farmers [indiscernible] (00:50:33) those that have fewer [indiscernible] (00:50:35). Maybe there's also a geographic difference if there's any regions that trade down quicker than others. Just any color on that. Thank you so much.

Charles V. Magro
Chief Executive Officer & Director, Corteva, Inc.

A

Let me give you my perspective and then I think it'd be helpful to hear from Robert and Tim on this one. So, generally, what we've seen in this crop environment, but also sort of stronger conditions and even weaker conditions than we have today, farmers are always prioritizing production per acre because that in many cases the last few bushels per acre will be their profit. And so from an overall crop inputs perspective, we have not seen a significant trend down in sort of selection of a different types of Seed technology, for example. And we don't see them skipping applications, especially when they have real disease or pasture or weed pressures.

And when it comes to Biologicals, actually the second half of 2023 is sort of the proof point. Very difficult conditions for farmers in South America. But our Biologicals business was very solid. And that's because, I think, certainly the products that we sell are not considered to be fringe or nice to have. I think they're core to plant health, to their physiology, to how they will grow and yield. And farmers will most likely make other decisions if things get a little tighter in terms of capital purchases and land acquisitions. But their core fertility packages and their core crop inputs packages, we don't really see them trading down.

Tim, your thoughts?

Timothy P. Glenn
Executive Vice President-Seed Business Unit, Corteva, Inc.

A

No, Chuck, I agree. I think the thing you have to remember is that the technologies in Seed is not just the yield that they're pursuing out there, but it's the whole production system, especially when you talk about the utilization of biotechnology traits. Those traits not only provide some benefit in the field, but it also changes how they manage the crop over the course of the season; and they see a lot of value in that and we have no evidence that they trade down. And the thing I always remind when margins get tight for farmers, it's not that first bushel you produce, it's that last bushel that determines what's going to fall to the bottom line.

And so, I think customers understand what makes them money and they continue to invest in the things that are going to make them money over time. In the case of Seed, it's high yielding genetics and the technology to help protect the trait or to protect those yields.

Charles V. Magro
Chief Executive Officer & Director, Corteva, Inc.

A

And, Robert, how about Biologicals?

Robert King
Executive Vice President-Crop Protection Business Unit, Corteva, Inc.

A

Yes, Biologicals is – they're a core part of the crop plan in the customers we serve. And so, we've seen those, while not immune to everything that's going on, they've held up, as Chuck said, very, very well. And when you think about the acquisitions we made and the benefit in in 2023, we were just under $500 million sales this last year. And we expect this to grow in the mid-20s this year and we'll double the contribution to the business. This is all a testament to the strength of the portfolio and the people that are showing the value to the farmers as we get into this season.

Operator: Your next question comes from the line of Arun Viswanathan from RBC Capital Markets. Please go ahead.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my question. I guess you guys didn't include the 25 slide, so I just wanted to maybe get your thoughts on if there's if anything there has changed. I think you've highlighted maybe $100 million from Biologicals contribution, $200 million from your productivity actions, so that would leave maybe $300 million to the midpoint for a low-single-digit Seed pricing and some of the other dynamics on the Crop Protection side. So, would you just maybe offer your thoughts on if all of those drivers are still intact? Thanks.

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

A

Yeah. Thanks, Arun. Very good question. So, we're still expecting the bottom line performance consistent with the financial framework we provided for you for 2025. And just as a reminder, it's that $3.9 billion to $4.4 billion EBITDA range. And as you said, the key components and maybe just spend a quick minute here through some of those elements.

First of all, as you point out, net pricing gains for the total company, that's going to be important. It's going to be led by our Seed business but very important. Crop Protection is going to have gains, and Robert spoke to that in terms of the 2024 performance outlook and particularly our second half that's going to carry through into 2025 for new products, Biologicals and Spinosyns. The contribution margin there quite attractive.

On the controllables, the royalty benefit, I mentioned earlier we were talking about the deflation and cost of raw materials, ingredients, and commodities, we're going to see deflation benefit higher net in 2025 compared to 2024. We'll have other cost of sales improvements that will translate, including the progress that we're making on the Crop Protection footprint optimization.

And then finally, we'll have some higher investment in R&D and some modest, modest increase in SG&A that will offset that. But the formula is very, very much intact. Building off the midpoint of the guide that we've provided you for 2024. So, thanks a lot for the question.

Operator: That concludes our Q&A session. I will now turn the call, turn the conference back over to David Anderson for closing remarks. Please go ahead.

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

Well, first, let me tell you, thanks again for your participation today and the quality of the questions. We very much appreciate the interest, obviously, in Corteva. We look forward to speaking to a number of you in follow-up to today's call. And also, we look forward to seeing you in New York City on November 19 for an Investor Day. So, thanks again and have a great day. Appreciate it.

Operator: Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.