Corteva at Vertical Research Partners Innovation Virtual Conference: Transcript
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Kevin McCarthy
Vertical Research Partners LLC

Welcome everyone to our 2021 Chemicals Innovation Conference. My name is Kevin McCarthy and I cover the chemical sector here at Vertical Research Partners along with my associate Corey Murphy. Very pleased to welcome Corteva as our next presenting company. Before I introduce our speaker though I want to mention we've prepared a number of questions to kick-off the dialogue today. But all of you on the line will also have the ability to ask questions. So if you do have a question, please type it into the portal at any time and we'll try to prioritize those as they come in. With that I'd like to welcome Jim Collins, Chief Executive Officer of the company. And I believe we may have Jeff Rudolph from Investor Relations on the line as well. Jim will make some brief opening remarks, and then we'll jump right into Q&A. Jim, I know you've got a lot of options in terms of events. So thank you very much for sharing time with us this morning. And without further ado, I'll turn it over to you.

James C. Collins, Jr.
Chief Executive Officer

Great, Kevin. Thanks for the introduction. And really thanks for the opportunity. We've always appreciated the coverage and the insightful questions. And also for everybody else that's on the conference. Thanks for joining this morning. I'm actually very pleased to be here at the Chemicals Innovation Conference this year. And you know before we get into your questions as Kevin said, I'd just like to maybe say a few things upfront you know kind of put our start of 2021 in some context and then basically talk a little bit consistently with the guidance and the update that we gave earlier in the month as we announced first quarter. Before we get into all of that I'll remind you that during today's discussion I'll make forward-looking statements regarding our expectations for the future. These statements are obviously subject to risks and uncertainty and you could find any further information about that in our SEC filings. So Kevin, our start to 2021 that execution that you saw in first quarter really built on the substantial momentum that we carried as we closed out 2020, I've coined the term, I talked about it on the earnings call. It's what I call kind of our heads down focus, you know we knew that we needed to finish 2020 strong coming through the pandemic, and we needed that momentum to set up a really strong start to 2021. So the result in in our first quarter was very strong organic sales and it was across both of those segments seed and crop protection. So that was 6% organic growth for the company as a whole.

And even more importantly we realized some really nice operating leverage on that sales growth during the period as our EBITDA grew 14% and margins – EBITDA margins expanded by over 150 basis points. So you know that strong focus that strong execution those growth opportunities that we had out there but in addition some improved SG&A all of that kind of offset a few of the headwinds that that we were facing. So things like raw material costs that are flowing through, some logistical and freight costs even precious metal catalyst cost. So I know you've got some questions about that. I'm happy to elaborate on those a little bit further. So I think our first quarter was just a really important proof point that our strategy is working, reinforcing our confidence that we're going to meet our commitments here for 2021.

As we take a kind of a quick look ahead for the rest of the year we're going to stay meaningfully focused on delivering on the fundamentals of our strategy advancing this amazing pipeline that we have both in crop protection and seed including the ramp up of the Enlist system which obviously folks have heard a lot about. We're going to continue to deliver on our productivity and cost savings commitments that we've talked about and then we're going to maintain that very disciplined approach in capital allocation. So since earnings this past quarter I've spend a pretty good amount of time with investors over the last few weeks. And I kind of had a very simple way to describe my views on where I believe we sit today. First is that momentum or carrying great momentum after strong close to 2020 and a great start to 2021. Someone said wow you guys really crushed it, had a fantastic quarter and my comment was no we actually had the quarter that we needed to have right to hit the full year guidance that we have out there and we needed that strong start. So pretty much exactly as we thought from a price volume perspective and so that's – that second point is this team is executing. They're focused, they staying agile, the markets are continuing to move around on this pandemic recovery globally is a little bit uneven. So while we're – we're feeling really strong things here in North America, we still got a lot going on in Asia both from a sales and marketing perspective but also just logistics from material suppliers and those kind of things. So team is staying really agile and adjusting as those market conditions continue to evolve. And then the third kind of simple point that I've been making is we're on track. We're on track to deliver the commitments that we made earlier and I feel really good as this market backdrop kind of continues to improve to help us really set up for a strong kind of continued focus as we begin to unfold – what our planning will look like for 2022. Those are just a few things, Kevin, I have been sharing with investors. So maybe I'll stop there and let you take it away with some questions.

QUESTION AND ANSWER

Kevin McCarthy
Vertical Research Partners LLC

Perfect. I appreciate you laying the foundation for the discussion there, Jim. Maybe to start off you know here in the United States, farmers have been out in the field and busy I think in recent weeks we've been tracking the weekly data coming out of the USDA and the planting progress seems to be going fairly well. How do you think the US season is shaping up in terms of planted acreage, and has anything surprised you either positively or negatively so far that the way the way the season is shaping up here?

Jim Collins
Chief Executive Officer

Yeah. I think that's a really great place to start. You'll remember when we announced fourth quarter earnings and guided to our full year of 2021. We included a chart in the appendix that sort of laid out what I'll call the two bookend years for how an ag season can unfold in terms of our shipments of seed in North America. And the first bookend will clearly be 2019, I mean this had to be one of the – one of the slowest wettest coldest starts I think you know based on recorded data in a 154 years it had to be the worst. So it represents you know the right hand limit of what a really late season would look like. And then we come back in 2020 and we provided that curve. And you know in my years in the business it's got to be one of the best earliest starts I've ever seen. Weather was perfect. Seed flowed early. And so I think between those two curves you kind of have the possibilities of what a season could likely unfold. I would say 2021 has been on the very positive side of that not as good as 2020 but it's been a really good constructive start. Warmed up early, growers got out there, not a lot of moisture during that critical planting time. And then, now that we've got those – that seed in the ground, you've seen the latest USDA data, corn is I think 90% planted versus 87% last year, and that's well above the five-year average. And soybeans are well ahead of the prior year, I think, were up over 75% planted now versus 63% last year. So we've caught that amazing start to 2020, and sitting pretty well. Then we've had some good moisture here over the last couple of days or this past week to kind of get that crop emerged and get it up out of the ground. So we're watching acres just like everybody else. I still think we could see between 5 million acres and 8 million acres coming into production for corn and soybeans. So it's always really hard to call the split – the market. Commodity prices are clearly indicating that both of those are going to be strong. So we've kind of called it 182 million between the two. Call it, 91 million 92 million corn and maybe 90 million or so soybeans. And as we as we sit here kind of at the very last tail of planting, are we creeping? Maybe a little bit on corn acres, possibly, but it's not millions of acres, it may be 100,000 here and there. I call these the fringe acres, right. Growers got their main good land planted. They got their corn and beans in, and now they're kind of mopping up and maybe catching a few fields that in the past they haven't had the conditions or the time to really cycle back to. So we're just going to be well positioned this year in the marketplace to capitalize on any of those additional acres that that might get planted right here at the tail end. So maybe a way to summarize it. It's been a great start to the season. We're well positioned and the things are unfolding, it's about like we expected it to and if there are any upsides we'll – we've got the seeds supplied and the chemistry supply to capture some of that.

Kevin McCarthy
Vertical Research Partners LLC

Okay. So maybe a little upward tension but we won't get ahead of the skis on our acreage...

Jim Collins
Chief Executive Officer

It's going to be, it's going to be small if anything. Yeah.

Kevin McCarthy
Vertical Research Partners LLC

All right. Let maybe shift gears I wanted to talk about the price opportunity and in my mind there's been a little bit of a timing issue I think for the industry, seed price cards probably went out before the commodity price inflection that we've all seen in recent months. Are you seeing less discounting though this year. Maybe you can educate us a little bit on what's a typical level of discounting and how 2021 compares to what is typical?

Jim Collins
Chief Executive Officer

Yeah. I think you shaped it up right. You know our price cards go out in the fall of the year and those cards launched into a market that certainly was not the commodity backdrop that we see here today. We try not to tie our pricing directly to commodity prices because you know if growers just don't view that investment in seed as a commodity it's an investment. So we're going to go out with a price card that prices for the value that we can capture year-over-year and that's about superior performing products. That's about incremental yield. But then as the market backdrop unfolds you're right. Towards the end of the season it always gets very, very competitive and incremental bags of seed that were not initially priced you know can sometimes show up a fair amount of discounting and I'd say this year we're just not really seeing that. I think that backdrop has been constructive and clearly our approach has been to continue to focus on the service that we offer growers and pricing for that and the technology that we -- that we have out there. So we'll continue to watch that. I'd say we're about done in North America. All eyes are now going to shift to what that value opportunity is in the southern hemisphere. I think we also especially in corn have an incredible lineup of technology. Our PowerCore, PowerCore Ultra penetration into that Safrinha market has been very, very strong. Our support for crop protection business down there, a lot of focus on pricing out ahead of offsetting currency which is our major lever there and so I just – I feel really good about our team. And I think what you have to do, Kevin, the best -- the best way to look at this is go back in time and look at our track record. Look at what we've done year over year and we're going to find a line through this market as it continues to unfold as we think about 2022 and what that backdrop looks like so that we really never, never try to give any of that back but try to price that has a fair spot to cover our costs but also a fair spot to keep our – keep our customers desires into account as well. So just that focus and that track record is really what folks should look at.

Kevin McCarthy
Vertical Research Partners LLC

Maybe that's a good segue. I think you anticipated my next question a little bit. If I look ahead to the next season you made the point that your pricing for value and that value equation has a couple of components right. I've got my yield advantage but then the value of that yield advantage is linked to some extent to the value of the crop right and so if you look at history you know what sort of a price mix uplift do you think might be possible looking ahead to 2022 and you mentioned currency and laydowns so maybe you know maybe that changes the calculus regionally in that market as well. But how do you think about that opportunity?

Jim Collins
Chief Executive Officer

Yeah. We look at a number of factors as we think about our pricing model. Clearly pricing to kind of pass through some of our key raw material costs whether it's on crop protection or it's on commodity prices for seed. So that's clearly one piece of it. Pricing for the technology that we have out there and the incremental yield that our products deliver, I think clearly there's a very competitive backdrop to especially in soybeans over the last couple of years, it's been a very, very competitive market. But when we think about that mix equation as you asked your question, clearly technology allows us to kind of improve our mix. And you're seeing that in our EBITDA and margin improvement, the basis point improvement is flowing through to the bottom line you know products like Qrome that are offering you know seven plus bushel an acre yield advantage, you can do that math pretty quickly of what's the value proposition there for grower. And then Enlist you know even those soybeans have been very, very competitive, the Enlist system has a very strong competitive advantage in terms of its simplicity the peace of mind that it offers. So I'm quite encouraged by the traction that we're feeling on that, and we're going to be you know essentially sold out of all the Enlist that we have in the market. I think that's a good sign for the acceptance of that. And you mentioned Latin America. Two things are happening there. First you know we're converting open pollinated acres to hybrid as farmers are really just trying to push you. And while there might have been in the past some fringe acres or they didn't make those investments. Global pricing for corn and domestic demand in Brazil for corn is probably going to drive some additional acres into corn. So the final piece of all of this would be that farm income backdrop, you know it's what do farmers have to actually invest in their crop. And we're seeing you know constructive levels around farm income and for all the right reasons now some of those farm income levels were kind of artificially propped up the last couple of years because of government incentives and payments. And as you know the new administration has come in and really peeled those away, now we're seeing good farm income based on commodity prices and just great farming practices by our customers. The final part about this question that I get from time to time is this issue around traits. Our growers in this kind of market really maybe buying a more expensive bag of seed or traited up when in some years you might have expected they would have traited down. And I think the important part to remember about our offering is we've always kind of aligned on a commitment around it's the right product on the right acre. So we wouldn't put a triple or a more expensive bag of seed on an acre that didn't need it. And I think that's what our customers really appreciate about us is you know we're really working with them to make sure that they've got the right products to perform. So we're not seeing a lot of this this up and down in our lineup. Others have had the issue because they may have forced technology where it didn't belong. But we feel really good about the way that mix is turning out.

Kevin McCarthy
Vertical Research Partners LLC

Okay. Perfect. Speaking of technology let's talk about Enlist a little bit. I think you've indicated your acreage ramp is on track rather for penetration at a level of about 30% of North American soybean units if I've got that right. And maybe talk a little bit about where the penetration can go. What do you think the ceiling is? Do you think you might be able to crest above 50% at some point? And what are the enabling or limiting factors that you think will determine the ceiling for penetration and when we get there?

Jim Collins
Chief Executive Officer

Yeah. We're real proud of the work that's going on in the marketplace or around Enlist. Our teams are executing really well. The publicity around the system the simplicity of it and just the peace of mind that comes with the technology is really paying off for us. So you're right. We've sort of expected that this season we'd be about 30% of North American or US soybean acres converted over to the Enlist System. And based on the seed units that we've sold and the herbicide applications that we've seen go out in the market, I'd say we're right on top of that number whether it's creeping maybe just a hair above it is with the momentum that we're feeling. But as of right now right on track. So there's every year there's just a Mother Nature effect of replicating the technology into a broader and broader swath of our product line. So we'll expect to continue to drive that over the next couple of years. 35-or-so percent of our inside Corteva line up in the Pioneer brand is kind of where we are. And we're going to keep almost doubling that year-over-year. The other thing that really plays into this Kevin, is the germplasm equation. While initially, we've had to launch these products based on in-licensing some germplasm from others. As we go forward, our breeding machine will also spool up. So there's two curves here. There's the top line penetration of units and acres, and then there's the conversion of those bags that we've already sold to our own technology. You asked about kind of peak market shares, right now, we're just conservatively saying that we'd expect that list would have about 50% market share out there compared to the alternative systems. And again, I call that a conservative number. The feedback from customers and the continued restrictions that could come on other systems that are out there can always be – you know, can help us maybe move that a little bit to the higher side. The thing that Enlist really allows us to do is execute on a strategy. Kevin, we've talked about before is around our kind of proprietary trait strategy, where we've – we've certainly had our – written our share of royalty checks to others over the years. And Enlist is the first big step of helping us reduce about half of those royalty payments over time. So by mid-decade or so, we'd expect to offset about half of what our historical royalty outflow has been. And then, by the end of the decade based on licensing their technologies to others and third parties as well as other germplasm that we'll be licensing, we'd expect to be able to neutralize that trait expense. So it's a big part of our EBITDA margin improvement, where we don't have to go out and gain another point of market share or sell another bag of seed, but we're able to put a pretty substantial amount of earnings to the bottom line as we as we've neutralized those as well.

Kevin McCarthy
Vertical Research Partners LLC

Sticking with soybeans for the moment Jim, would you provide an update on Conkesta insect protected soybeans. Last I recall the European Food Safety Authority issued a positive scientific opinion late last year, what are the next milestones you need EU import approval. And if that goes well you know do you think Conkesta could allow you to rebuild or gain some soybean seed market share in Latin America?

Jim Collins
Chief Executive Officer

Yeah. As we've talked about before Conkesta is really the centerpiece of our what I'll call re-entry into the soybean market in Brazil. We know – we had a – we had a great market share there, we were 20%, 25% market share a number of years ago, fantastic germplasm and an amazing breeding organization. But when this market kind of went from insecticides to control insects to a trait to control insects, we had a technology issue a number of years ago. So we've kind of been without our own trait in that market. Now we in licensed Intacta and we've got some entry level product sales kind of just keep our – keep our toe in that water. But Conkesta really comes along and allows us now to really get back into that. So it needed two really important approvals before we could open it up for full cultivation. One of those was approval in China for import tolerances. We received that earlier last year, so we're very excited. And to be honest with you I expected that that would have been the long pole in the tent for getting this technology approved. So the second one was waiting on the European Food Safety Authority or EFSA approval. Conkesta was on the agenda for the mid-May EU Commission based on that positive recommendation from FSA. But you know COVID continues to have its effects on a lot of things so with the new protocols the votes for that are taken in writing. So it's going to take pretty much through the end of the month of May before we'll know whether we have it. We don't expect -- we always kind of go through a first vote. We don't expect to get that qualified majority. But then there's always that appeals process that will kick in mid-year and we'd expect to be able to prevail through that. So the likelihood of commercial activity in 2022 is strong and we currently have low single digit market share in Brazil soybeans today is our business really was affected by that lack of a trait. So as we launch Conkesta in 2022 by the time you see 2023, 2024 and 2025 we're going to be able to meaningfully begin to regain the share that we had. And there's nothing right now and that would say we couldn't get back to the kind of levels that we were before, we lost that trait. So it's a big part of our revenue and earnings growth strategy kind of mid to late decade as that technology really takes off. So another proof point in the merger here Dow had developed some really nice technology but really didn't have much of a germplasm base. We've put Conkesta into that – that Corteva background germplasm when we're ready to go.

Kevin McCarthy
Vertical Research Partners LLC

Excellent. We would round out the discussion on seeds Jim. You launched your Brevant Seed Brands in the US this year. How has that gone so far and where do you think the growth opportunity is in 2022 and beyond.

Jim Collins
Chief Executive Officer

Yeah. We are really pleased about how the launch of Brevant is going in that US retail channel and 2021 is going in that US retail channel and 2021 is really the first full year of operating in that channel with Brevant. We had some cleanup to do with a number of older brands and we wanted to have a good trial season in 2020 where we went out and used a number of the Brevant varieties to do side by sides with the rest of the competition. And the good news especially on our soybean brands we don't have to go head-to-head with our own stuff in A Series. We just have to go out there beat everybody else. And those field trials really, really showed that that the germplasm was performing. So we come in into 2021 and then – and demand has been strong. Most importantly here, we've built a very important credibility now with the retail channel that we're going to be here that we have a brand that's credible and that that can perform. And we've established a brand now that farmers want with that field trialing. So for the first time in gosh what 20 years or so the growers are really going to – that really prefer that retail option if they're going to a choice of technology that they didn't have. So we'd expect to continue to focus especially initially in corn and grow soybeans over time. I get the question a lot how big do you think this could be for you. And you know that retail channel is about a third of the way seed goes to market in North America. We could have 20% market share in that one-third segment over time. The other important piece of information I think folks forget is we launched Brevant in a whole bunch of other places around the world. We're out in Ukraine. We launched in Argentina and Brazil. I think we had 6 to 7 million units sold all around the world. So it's not our first time out with Brevant. it is – it is new for us in US retail. But we understand the brand and the genetics and our performance. So Kevin, we're really pleased with where we are.

Kevin McCarthy
Vertical Research Partners LLC

Good to hear. We do have a question coming in from the portal, Jim. And so I'll read this. What is your top yielding hybrid in the Corn Belt? And how much does a bag cost compared to your average corn seed?

Jim Collins
Chief Executive Officer

The – you know, there are a lot of hybrid numbers out there, right. We've got a lineup. But one product that I know for sure that is – that is a real – a real strong performer is P1197. It's a – it's been in our lineup now for – for two years. David Hula, who is the National Corn Growers Yield champion won the contest again this past year with P1197. Trend line yields in North America are going to be 180 bushels, 179 bushel to 180 bushel an acre, that's the average across the US. A good grower on high organic soils and say Iowa is going to push that well above 200 maybe close to 220 bushel. You get out into that center pivot market in Nebraska, where you've got a lot of really great irrigation as well. You could get 250 bushels. I think Dave Hula won the yield contest at well over 400 bushels an acre. So you get a sense of what the genetic potential is on a number of these products. So our pricing is situational based on the performance of these products that clearly yield matters. And that incremental bushel is part of our pricing construct. So we turnover maybe just for the – for everybody else to know that, we're going to turnover about 20% of our lineup every single year except it's that breeding machine that background germplasm. And so while P1197 was the rockstar last year you know in two years it'll be a third a second or third tier product. And we'll have new numbers coming out to replace it. And that's the promise of our brands is that we're constantly elevating the technology that's in that bag. And it's two to three bushels an acre every single year, year in and year out and allows growers to kind of stay out ahead of that productivity curve, manage their input costs but also continue to keep pace with feeding a global population. So it's always part of that equation. Maybe a final point on this, you know we have a number of different brands. Pioneer will always be premium priced brand out there. It'll always be the most expensive bag of seed in the marketplace because there's more than just seed in that bag, right. There's the technology part of that, but there's also the service that goes with that. So our field sales with agronomists are out there walking those fields with growers, they're out understanding you know the uniqueness of every farm and really you know offering that right at point of sale advice and coaching and counseling with growers have come to expect they have a problem with the bag of that seed either due to replant or rain or frost or any of those kind of things there's a replacement bag there for most of those growers also. So they've come to really know and trust that level of service that you're going to get from that brand.

Kevin McCarthy
Vertical Research Partners LLC

I want to make sure we get to the crop protection side of the company. So maybe if you – to kind of change lanes a little bit. Actually one of your one of your peers was at the conference yesterday and I posed the question of you know which category insecticides, herbicides or fungicides might grow the fastest. And you know, the short version of that answer with a long-term view is – was insecticides. I know that you are making meaningful investments in spinosyns. Would you agree or concur with that assessment? How do you view the relative growth rates of the different categories?

Jim Collins
Chief Executive Officer

I think you have to look at it two ways. You have to look at it market and then you have to look at the individual companies and when – what our – what our pipelines are, right. So if I look at the macro-market space, clearly the insecticides growth tied to consumption of things like fruits and vegetables is – is a positive bright spot for the horizon. And so for us, even more so as we continue to expand capacity around our spinosyns, these products are under penetrated for years. So as we – as we bring new capacity online, we essentially sell that capacity out. So we talked a lot about those – those investments. So we'd see that continuing. But we also have a pipeline that – the new insecticides that we have coming Reklemel in the nematicide space, the Isoclast, our newest insecticide with a strong pollinator, safety regulators are really advancing this new technology. So our pipeline would say that we would expect in that space to grow even faster than that market. Add to that, we also have a pipeline in the fungicide space. So while others have been very strong over the years, this was a growth area for us. And now our pipeline is really starting to deliver with the Vessarya, Inatreq coming, Zorvec, our newest fungicide for vegetables. So really exciting. So while that space may seem a bit stagnant globally but we're going to grow there and then in the herbicide space you know the Enlist sprays that we're picking up on all those soybean acres in North America. Is it really nice growth for us and then we've got a new herbicide Arylex in Europe in cereals which is just a fantastic product. This thing could be $400 million and just one or two years after launch. It's – it's really solving some big issues that growers have had. So if all you have is a – is one product then that's where your growth is going to come from. But for us we're nicely penetrated across all of those areas and it's that pipeline that we've been talking about in the past.

Kevin McCarthy Vertical Research Partners LLC	Maybe just to follow up on these new products Jim, I mean Arylex seems like it'll be a nice workhorse in herbicides crossing through 400. You mentioned in the track briefly and fungicides and that seems like it's on a really steep ramp. Am I right about that and if so what is driving the sweetness of that ramp relative to some of your other new products?
Jim Collins Chief Executive Officer	Yeah. So both of these products take care of a really important set of issues that growers face. So Arylex is a great example there. There is a weed in wheat called black grass and you can look out across a beautiful field of wheat. You can see the little black shimmers. So it's a grass and it robs the soil of nutrients for that wheat crop. So it will affect yield. Then it becomes the seed heads off of that become a contaminant in the wheat crop at harvest. So growers really need to control that. But think about it for a moment. We're trying to kill a grass – in a grass. It's very hard to do. So Arylex comes along really does the job and there are other chemistries in the past that have done it but they've become essentially resistant. The weeds are resistant to it. So you're right. Arylex a real rock star and then Inatreq controls a fungus in cereal crops powder powdery mildew. That is just a Septoria site that is just a huge issue. And we haven't had a lot of good tools in recent years. We had some good ones a number of years ago. But again Mother Nature finds a way around it through resistance. And so you've got the hot new product that controls Septoria and you're going to get the sales. And those are two, I'll mention a third one that we're just really now beginning to see what its potential is going to be is Rinskor. Rinskor is a herbicide for rice and it hasn't been a really good new herbicide in rice in a long time for post emergency control of both grasses and broadly. And trying to help growers be more efficient use less water and manage these really tough weeds has been a big challenge and Rinskor comes along at a perfect time. So yeah, that pipeline really is delivering.
Kevin McCarthy Vertical Research Partners LLC	Got you. Yeah. I think we had Rinskor a couple of hundred million of sales...
Jim Collins Chief Executive Officer	Yeah.
Kevin McCarthy Vertical Research Partners LLC	...potential looking out to maybe the 2022 or 2023 timeframe, does that sound about right?
Jim Collins Chief Executive Officer	Yeah. Absolutely.
Kevin McCarthy Vertical Research Partners LLC	Okay. Good. Maybe in the three or four minutes we have remaining Jim I wanted to talk about the cost picture a little bit and this is an issue that we're talking with every company about at this conference, right...
Jim Collins Chief Executive Officer	Sure. Yeah. Sure.
Kevin McCarthy Vertical Research Partners LLC	...there are all kinds of raw material costs inflation logistics packaging you name it I think at the top of the conversation you mentioned that the COVID situation is getting better in the US. That's not true for every country around the world. And that's adding to some of the friction in the supply chain. So maybe talk through how you are managing through this period, you know on your call you talked about some precious metals substitution things – things like that you know what is Corteva doing with a better foot forward these days.
Jim Collins Chief Executive Officer	Yeah, great. So as we as we think about these costs that are coming at us, let me just remind everybody there's a very important piece of this equation which was the productivity plan that we put in place at the start of the year. And you know as we came through the end of 2020 we could see a little of this coming. And so we knew we needed to have a really strong ground game. So we're going to deliver about $250 million for the year from a bunch of initiatives that we've put in place to fight these costs. That said now

our net raw material cost of sales is going to be about a net $50 million headwind for the year. So there's about $200 million more of costs that have come at us since we built the original plant. Now that's all in our guide and we affirmed our full year guide which means we're pulling levers and doing things to offset that additional costs are coming at us in addition to taking into account those productivity areas. So those costs fall into maybe four categories. So seed commodity cost is a pass through for us. So as we have produced a crop for Brazil the second half of the year we'll see the cost of that seed production in Latin America go up as we compensate growers for using their land to produce seed at a commodity rate, and then yields for a function of that too. So if you have a really good seed production year you're going to spread your fixed cost of renting that acre over more bushels of seed yield, this past year and we had some real costs that came at us yield issues in places like Europe where there were some weather and moisture concerns there. So that's one category just kind of seed cost of sales from yielded commodity. And then there's freight logistics and I'm sure you've heard that from many, many folks over the last couple of days. It's just – it's much more expensive to move things around whether it's fuel costs but also just getting freight handlers and ships on the ocean and trying to compensate of a raw material supplier that you know misses a shipment because they just don't have the product, and you wind up air-freighted things versus using ocean freight. And then the third category you mentioned is just raw materials in general, the chemical industry, a combination of what happened on the Gulf Coast this past winter with some pretty serious shutdowns and some restart issues. And then just globally the COVID overhang in the manufacturing sector is pushing some raw material costs our way. And then finally the one that we were aware of that started happening in the early days of COVID in 2020 was several of our precious metal catalysts. We have used rhodium as one of our biggest catalysts. And rhodium prices went up like 2500% during COVID because many of the mines were shut down which just couldn't get labor. And rhodium is a huge input into the catalytic converter market. So you've got this global automotive industry that's putting demand on that metal and we're a really small user. It's not much material but those prices really were running. So we already had pulled the trigger in late 2020 on a conversion to palladium which is which is well underway. But kind of that tail that fourth quarter first quarter tail is we're getting ourselves the heck out of rhodium and into palladium kind of passing through as well. So we're working hard to cover all these costs. We've got good visibility other now, I would say. I don't believe they've fully peaked. But I think that the – in the totality of the run up I think we have good visibility of what it looks like now and certainly we'll take all of that into account as we head into 2022 and look at what our pricing strategies are going to be but also additional productivity actions that we pulled levers on.

Kevin McCarthy
Vertical Research Partners LLC

Okay, great. And then if I may Jim I want to squeeze in maybe two more to wrap up the conversation and briefly the subjects would be capital deployment and then you've got a new CFO and some new board members, on the capital deployment side I think you are winding up a $1 billion share repurchase program sort of I don't know for the eighth inning or the ninth inning now I suppose. But you know you're still blessed with a pretty clean balance sheet certainly if I look at it with the pension liabilities on the side. So what are your thoughts regarding the mix of capital allocation moving forward and do you think the next few years will look any different than the last few. And then just any thoughts you have, had the pleasure of speaking with Dave Anderson one time. It seems like he's got great experience and we will add a lot of value, but the new CFO and new board members and any thoughts there would be welcome.

Jim Collins
Chief Executive Officer

Okay, great. So on the capital piece you're correct. We're committed to executing the current share repurchase program and we continue to expect that we're going to complete most of that by mid-2021. So yeah whether it's the second half of the eighth inning or the top of the ninth where we're probably right about there is the way to think about it. Overall capital allocation, our strategy remains really unchanged. It starts with that healthy balance sheet. You talked about it gives us the ability to borrow especially in really tough environments and you think about what the world went through at the start of 2021 when we were we were really blessed with, and we appreciated the fact that we have been so attentive to that balance sheet. And then it gives us this opportunity to continue to fund our growth. So making sure all of those new products that we talked about you know the investments that we're making and things like Brevant and our route to market changes that that would be another really important source of capital, and that place for us to spend our capital, that gives us that trajectory, right. Allows us to talk about you know taking our growth mindset on out beyond the next couple of years. And in that final tier would be returning cash to shareholders, and whether that's through competitive dividends or share repurchases. The health of the balance sheet does give us an opportunity to pursue some opportunistic M&A to further diversify things like our geographic footprint where we are globally but also you know our new products things like biologicals or you know looking at maybe vegetable seeds or even some digital acquisitions, but really small I call them tuck in or bolt-on types of opportunities. So you mentioned, Dave, yeah, we're very excited that Dave has joined. He's been a really good addition to the team already. He does bring just some tremendous experience. He's already just jumping in, a really great example of that is taking a fresh look at all of our capital plants to make sure we're understanding what our ROI potential for key products – or key projects that we have and making sure we're investing not only just for the productivity side of the world but also for that growth equation. I think he's got some really strong experience in the procurement space, and we have you know good opportunities I believe to save more money in our indirect spend, and so he sort of raised his hand on day one and said hey I'll take that and focus on how we – how we optimize it. Maybe the final point I'll make about Dave is that he is a really hands-on CFO right. It's not kind of at the corporate top of the house level but right down into the details of our business and how we make money and how we make sure that deleverage from every dollar that we sell shows up and its maximum amount to the bottom line and that just helps me a lot with making sure that we've got everything firing on all cylinders across the business.

Kevin McCarthy
Vertical Research Partners LLC

That's perfect Jim. I feel like we could go on and on here. Have certainly got tons of tons of questions. But those are fantastic insights. And I want to keep you on time and the listeners on time. So we'll leave it at that and I'll end by thanking you for the attendance and the insights there. Much appreciated.

Jim Collins
Chief Executive Officer

Yeah, Great. Kevin always great being with you and thanks again for those on the phone. And we look forward to the rest of the conference and some follow up one on ones all through the day. Thanks a lot.