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Corteva, Inc. (CTVA)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Audra and I will be your conference operator today. At this time, I would like to welcome everyone to the Corteva Agriscience First Quarter 2025 Earnings. Today's conference is being recorded. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] At this time, I would like to turn the conference over to Kim Booth, Vice President, Investor Relations. Please go ahead.

Kim Booth

Vice President-Investor Relations, Corteva, Inc.

Good morning and welcome to Corteva's first quarter 2025 earnings conference call. Our prepared remarks today will be led by Chuck Magro, Chief Executive Officer; and David Johnson, Executive Vice President and Chief Financial Officer. Additionally, Judd O'Connor, 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. Spring is always a busy and exciting time for agriculture. And this year is no exception. 2025 is off to a good start. Planting in the Northern Hemisphere is proceeding well, the weather has cooperated for the most part, and CP destocking is firmly behind us. There are some back-half risks we are monitoring. We will discuss those today. But let's start with the quarter.

Year-over-year, Corteva saw 15% increase in Q1 EBITDA, nearly 400 basis points of margin expansion, driven by strong cost execution in three growth platforms: biologicals, CP new products, and seed out-licensing. Both of our segments delivered healthy double-digit EBITDA gains. The biggest driver was operational excellence. And on this front, we are tracking well against the \$400 million net cost target we set for ourselves. More on this later.

This performance allows us to reaffirm our full-year guidance, which we announced in February. It also allows us to de-risk the second half of the year. David will explain more. Factored into our guidance is the fact that farmers in the US are projected to shift planted area from soybeans to corn, resulting in a projected increase in corn of about 5%. And if current trends hold, Enlist beans will be planted on just over 65% of all US soybean acres in

2025, as it approaches maturity, Enlist is the number one selling soybean technology in the US. As you know, our focus is now set on becoming the leading provider of soybean technology in Brazil, and we're making great strides on that front, having sold more than 3 million units of Conkesta E3 soybeans over the last three years.

Globally, from an overall industry perspective, we're seeing somewhat mixed fundamentals. Record demand for grains and oilseeds continue, and farmers are investing in premium seed and crop protection technology to enhance and protect their yield. Although corn is faring relatively well so far this year and is less reliant on export trade, overall crop prices and margins have moderated somewhat, as planted area shifts and trade uncertainty begins to weigh on the markets.

Getting back to Corteva, our Seed business is off to a strong start. Organic sales were up 2% in the quarter, driven by pricing, reflecting the value our seed technology consistently delivers to farmers. Our Seed order book reflects strong demand for our product lineup, and we are planning to bring about 500 new products to the market this year, with approximately 300 new seed hybrids and varieties. We are also seeing meaningful improvements on the cost side, allowing Seed to deliver just under 400 basis points of margin enhancement for the quarter.

On Crop Protection, organic sales were up 3% in the quarter, driven by double-digit volume growth for both new products and biologicals, two of our near-term strategic growth platforms. We've now seen four consecutive quarters of volume gains, a sign that the channel is operating at healthy levels. Our latest view of the Crop Protection market for the full year is a flattish environment, with low-single digit volume gains, offset by low-single digit pricing headwinds. For Corteva, we continue to expect high-single digit volume gains, more than offsetting low-single digit pricing headwinds. However, our revised thinking is that price pressure will persist into the second half, but to a lesser extent than what we've seen in the first half. Our plan for Crop Protection in Brazil for the second half contemplates an EBITDA contribution about the same as last year, a strong performance, but if we did it once, we can do it again.

On Seed in Brazil, we've spent a fair amount of time talking about the inroads we're making on soybeans with Conkesta. But I'd be remiss not to mention the exciting developments we're seeing in the market for corn. Brazil's corn ethanol industry has seen remarkable growth since the country's first plant in 2017. With production poised to nearly double by early next decade, corn is expected to account for nearly a third of Brazil's total ethanol production by 2026, strengthening Brazil's position as the world's second-largest ethanol producer. The rise in production is also linked to Brazil's increasing Safrinha corn output, which has doubled over the past decade. Given our leading position in Brazil corn, this is certainly going to be a structural value creator for us.

Moving on to tariffs, an important topic in the quarter, this is a fluid situation, as you all know. But we'll try to summarize how Corteva may or may not be impacted by the tariffs currently in place, which in 2025 is largely a Crop Protection story. Long story short, based on what we know today, the direct cost impact to Corteva in 2025 should be about \$50 million, which we believe is manageable. While we work through the process of identifying the level and nature of mitigation efforts, we have not at this time dialed the puts and takes into our financial numbers that David will discuss in a few minutes. The main takeaway is that tariffs are not impacting our full-year guidance range, but please note we have work to do to mitigate the impact.

It is important to reiterate the significance of our domestic manufacturing footprint. Two of our largest Crop Protection franchises, Enlist and Spinosyns, are both produced here in the US. We are also seeing the benefits of our global multi-sourcing capabilities, as we work to minimize the impact on cost and customers. That said, our bigger concern lies with American farmers. American farmers are the backbone of the world's food supply, working sunup to sundown to produce the food we eat every day. As the American growing season moves closer to the harvest, we hope to see export markets open up for North American grain and oilseeds. I don't think we're

alone in this view, and it goes without saying that the financial well-being of our farmers affects the entire industry, and the world does need the food.

So as we sit here today in the beginning of May, I am pleased with our first quarter performance. Double-digit EBITDA gains and almost 400 basis points of margin improvement is not easy to come by in this market environment, and it is driven by another quarter of operational excellence. As we all know, the first quarter doesn't dictate the year in agriculture, but the first half is playing out a little better than we expected. The tariff situation appears to be manageable based on what we know today, and we're showing good progress on our growth platforms.

I believe we have the appropriate level of attention on improving our cost position through our controllable levers. It's worth repeating that we expect to generate net cost improvements of \$400 million, driven by productivity and raw material tailwinds. In addition, our path to royalty neutrality and transitioning to a net out-licensor of technology by later this decade is expected to generate another \$65 million in benefits this year. These self-help levers continue to drive value creation for the company and provide meaningful, some might say transformational, margin enhancement through the ag cycle.

With that, let me turn over the call to David.

David P. Johnson

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

Thanks, Chuck, and welcome everyone to the call. Let's start on slide 6, which provides the financial results for the first quarter. You can see from the numbers, results for the quarter were strong, led by more corn acres in North America, along with favorable timing and execution on controllables in both Seed and Crop Protection. Organic sales were up 3% compared to last year, with Seed up 2% and Crop Protection up 3%. Currency was a significant headwind to top line for the quarter at 5% of sales, in line with expectations.

Seed pricing was up 3% in the quarter, with pricing gains in most regions, as we continued to price for value. Latin America was the one exception, our price was down as expected, given the competitive dynamics in Brazil, as we closed out the Safrinha season. Seed volume was down 1% compared to prior year. More corn acres in the US and favorable spring weather drove gains in North America, that were offset by declines in other regions. Seed volume in EMEA and Latin America was down mostly due to seasonal timing shifts.

Crop Protection price was down 2% as expected, driven by competitive market dynamics. Crop Protection volume was up 5%, with gains in nearly every region. Notably, new products delivered double-digit volume gains in the quarter. Operating EBITDA was up 15% over last year. Operating EBITDA margin of nearly 27% was up 390 basis points, driven by organic sales growth, coupled with significant benefit from lower input costs and productivity.

Moving on to slide 7 for a summary of the first quarter operating EBITDA performance. Operating EBITDA was up more than \$150 million to just under \$1.2 billion. Price and mix, volume gains, and cost benefits more than offset currency headwinds. Seed continues to make progress on its path to royalty neutrality with another \$20 million decrease in net royalty expense. This improvement was driven by both increased out-licensing income and lower trade licensing expense. Seed and Crop Protection combined to deliver more than \$200 million in productivity and cost benefit, including lower seed commodity cost in all regions, led by North America.

In the first quarter, SG&A was up modestly compared to prior year, driven by higher compensation and normalized bad debt accruals. The increased investment in R&D, aligned with our target, is on track to reach 8%

of sales for the full year. The higher costs were partially offset by a benefit from currency. As expected, currency was roughly \$90 million headwind on EBITDA, driven by the Turkish lira and Canadian dollar. Both Seed and Crop Protection had an impressive first quarter and delivered double-digit EBITDA growth and meaningful margin expansion.

Moving on to slide 8 for remainder of the key sensitivities that could impact our full-year results within the guidance range. At this point in the year, there are a few key factors that could drive results to the upper or lower end of our full-year guidance. While the industry is expecting more corn acres in the US and our order books would support that, not all of crop is in the ground yet. So we need to finish up the North America season and see what ultimately gets planted. In Latin America, we're expecting increase in both Summer and Safrinha corn areas in Brazil, and a partial recovery in corn area in Argentina, after much of it was lost due to corn stunt in the past season. There are many factors that could still influence farmer decisions in the region and could impact our second half results.

We're now expecting Crop Protection prices to be down low-single digits throughout the year, offset by high-single digit volume growth. Demand for biologicals and new products continue to be strong and gives us confidence in our ability to deliver growth. We recognize that tariffs and global trade policy continue to be a source of uncertainty. Although our exposure to tariffs is expected to be manageable given the level of Crop Protection imports, the associated costs and any mitigation actions are not factored into our guidance. Nevertheless, as Chuck mentioned earlier, tariffs should not impact our full-year guidance range based on what we know today.

With that, let's go to slide 9 and transition to the key assumptions for the first half and second half of the year. Driven by the strength of the first quarter, we now expect net sales for the first half to be about flat versus prior year, with operating EBITDA up low- to mid-single digits, driven by favorable timing in cost benefits and additional volume in the first half. As a reminder, this is stronger than we originally thought. In our original guidance that we provided back in February, we were assuming first half EBITDA would be about flat.

Seed is expected to continue the momentum from the first quarter, deliver solid organic growth in the first half of the year, led by North America, more corn acres and a strong product lineup. Crop Protection is expected to deliver solid volume growth over prior year, including double-digit growth in biologicals and new products. Pricing will continue to be pressured as expected. The Seed and Crop Protection will deliver significant benefits from lower input cost in the first half, while SG&A is expected to modestly increase compared to prior year. R&D is expected to be about flat in the first half.

Turning to the second half of the year, we expect strong sales and operating EBITDA growth, driven by low-single digit price and double-digit volume growth over last year. Crop Protection operating EBITDA is expected to be roughly in line with the strong second half 2024 results, while Seed is expected to drive growth through price and volume gains. Seed price is expected to remain strong in the back half of the year, driven by the strength of the portfolio in Latin America, while Crop Protection pricing is expected to continue at a rate of low-single digit decline compared to prior year. Both Seed and Crop Protection are expected to deliver double-digit sales volume led by Latin America.

We will continue to deliver cost savings in the second half of the year, but at a lower rate than the first half, given the timing of Crop Protection deflation and productivity as well as timing of Seed benefits due to the seasonality of the business. Again, while we do not expect the net cost associated with tariffs to affect our full-year guidance range, as of now, any associated costs and impact from mitigation efforts will be weighted towards the second half of the year, given the timing of our Crop Protection inventory turns.

And finally, currency, we expect about 50% of the full-year headwind to be reflected in the second half of the year, driven by our exposures to the Brazilian real. To summarize, with our updated assumptions for the first and second half of the year, we remain on track for full-year operating EBITDA of \$3.7 billion, with a few small changes to our original assumptions. We expect to deliver low-single digit pricing gains for the year, but at a modestly lower rate than originally assumed. And volume is expected to be higher now, driven by increased North America corn acres and strong demand for Crop Protection, as the market continues to stabilize.

With that, let's go to slide 10 and summarize the key takeaways. First, while there's still much of the year left to go, we delivered an impressive performance in the first quarter, ahead of expectations. Organic sales growth was driven by a continuation of our price for value strategy, strong North American Seed deliveries, and mid-single digit volume gains in Crop Protection. We delivered more than \$200 million in cost savings from lower Seed and Crop Protection raw material costs and productivity. Together with organic sales growth in both businesses and improved product mix, this translated to 390 basis points of margin expansion over prior year. The strong first quarter cash flow supports our ability to deliver the midpoint of our free cash flow to EBITDA guidance range of 40% to 45% conversion rate. And finally, we remain on track for \$1 billion of share repurchases in 2025.

With that, let me turn it back to Kim.

Kim Booth

Vice President-Investor Relations, Corteva, Inc.

Thanks, David. 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] We'll take our first question from Chris Parkinson at Wolfe Research. And it looks like we lost Chris's line, so we'll move next to Joel Jackson at BMO Capital Markets.

Joel Jackson

Analyst, BMO Capital Markets Corp. (Canada)

Good morning. Thanks for taking my question. Chuck, I thought, like, in your – some of your very first few words on this call today, you talked about some risks in the back half that you will get into. So, what you're guiding to is that the first half of the year will be something like 83%, 84%, 85% of the full year. That leaves about \$500 million to \$600 million of EBITDA for the second half of the year. So, like, there's not much play there. Like, how much risk upside, downside is really in the second half there? Are we talking \$200 million, \$100 million? Can you maybe kind of quantify some of those comments, and because it is a pretty large of an earnings that happened in the first half of the year? Thanks.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

Yeah. Well, good morning, Joel. Thanks for the question. So, here's how we're thinking about it. First of all, the first quarter, right, so close to \$1.2 billion, 400 bps of margin improvement, 15% increase I think in EBITDA, something like that. So, it was a little better than we thought, to be candid with you. But as you know, the first

quarter doesn't make the year, and we really don't like to move on guide in Q1, especially before the crops in the ground. But Q1 was better than we thought. If you now think about that for the first half, we actually think that the first half is going to be better than our original plan as well. So the second half of the year, the way we're thinking about it right now with what we can see looking forward, is that it's been de-risked since the February guide, which I think is a good, positive first step.

Obviously, there's puts and takes, and I'll have David kind of walk through them, but to get to your question, the way I'm thinking about the second half now is we need Crop Protection, for example, in Brazil to do essentially what they did last year. So, it was a strong quarter last year, if you recall, but nothing more than that. So I actually think that our guide, even though we've kept it the same, has been de-risked pretty significantly.

Now, what we're looking at in terms of the clouds, of course, over the future, the biggest one that I'll draw your attention to and then I'll let David talk about some of the financial levers is really CP price, down low-single digits. We now believe we'll be down low-single digits for the full year. That is reflected in the 3.7% or at least the 3.6% to the 3.8%. Could it get worse than that? Yes. Obviously, it could. Could it get better than that? Yes. But we feel that, again, the risk, and when you look at the guide from 3.6% to 3.8%, having the CP pricing down low-single digits for the full year is reflected in that. So, overall, we're feeling very good about this. And then we'll, like usual, Joel, we'll update the market with a full guide, puts and takes after the first half. But maybe, David, you could talk about currency and some of the other financial moves.

David P. Johnson

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

A

Yes, Joel, so thanks for the question. If we step back, I just want to remind, our original guide was 10% EBITDA growth over prior year. And when we first thought about how the first half and second half would play out, we did expect the first half to be about flat to prior year. So now, given the strength of the first quarter, I think we're back into the range. We said low- to mid-single digits. We're probably getting a little bit more refined there in the 4% to 5% range.

So if you look at what that might mean for the back half of the year, it's still a 40% increase over prior year. So it's still a pretty significant increase. It might not be so much in dollars because it's obviously a smaller half than our first half, but still, we found it prudent to kind of take some of the risks that we had in our original and start backing down that back half. And as Chuck mentioned, a lot of that is the assumption that CP will be pretty much in line with last year and the benefits year-over-year will be primarily in Seed. So when you think about the \$300 million or so increase in EBITDA dollars year-over-year, we're now assuming about the same first half and second half. So a little bit more balanced.

If we go into some of the actual drivers, and I think we tried to articulate this on slide 8 a little bit, where we are in FX, we had the \$275 million original guide? I would say right now we're still in that region. I mean, I would say that the first half – the first quarter was \$90 million. That's what we expected. We expect about half of this impact to be in the first half. We still expect that to happen. The back half of the year, as we've articulated before, is mostly a BRL story. And as we look at our exposures, I mean, one of the things I want to just remind everyone, it's not only the rate, but making sure that we can forecast and understand our exposures in the back half of the year. And when you look at those two elements, we feel like we're in the right range with \$275 million.

We talked about corn acres, probably the one thing that Chuck had mentioned before was the one risk on Crop Protection pricing. We did say that probably a little bit softer than we expected going to our original guide. We're offsetting some of that with volume. And then, I'm sure we'll be talking quite a bit about trade policy and those sort of things. But we are looking at the \$50 million impact to trade policy and we're looking at how we mitigate that.

So, that's pretty much where we're balanced right now. And then, I would assume after Q2 actuals, we will then revisit not only these assumptions, Joel, but also interest and all those other things that go into the basis of our EPS guide.

Operator: We'll go next to Chris Parkinson at Wolfe Research.

Chris Parkinson

Analyst, Wolfe Research LLC

Q

I apologize. I was so excited to ask my question, I accidentally hung up on you. Well, talking about agriculture – I apologize. So, guys, when you take a step back, obviously you've had a decent amount of success across your Seed portfolio over the last few years. And some would say, oh, you know, there's not much more to come. But at the same time, you still have a lot of products left in terms of launches and the kind of the progression in both the United States and Latin America. And in Latin America, correct me if I'm wrong, it seems like corn planting could actually be in a much better place than it's been in the last two years. So, can you just briefly speak about just across the Americas where you feel the most enthusiastic about what's left to come and perhaps a little bit of a longer-term comment of what you're still enthusiastic about and where the Street should be essentially re-shifting its attention to? Thank you so much.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. Good morning, Chris. So I'll have Judd take the question. But let me just remind you, from a strategic perspective, there's really exciting things happening with our Seed business. Our history has been that we've been a net importer licensee of technology. And what we're trying to do is strategically shift this to being an out-licensor of technology. And we're seeing really good traction when it comes to that strategy. Enlist is sort of the poster child for that. But it's now happening in Enlist in Brazil, it's happening in corn, it's happening in canola. And then don't get me started about hybrid wheat, because that's coming in the next three years, and we think that could be \$1 billion of revenue opportunity at its peak. And so, the pipeline is, I'd say, far from getting peak yet. And in fact, I think the best is yet to come. But the way you've asked the question in terms of what's happening in certain regions, I'll have Judd answer that.

Judd O'Connor

Executive Vice President-Seed Business Unit, Corteva, Inc.

A

Yeah. Chris, thanks for the question. And just maybe parlaying off of some of Chuck's comments about some of the spaces that we see as future growth potential, if you look at North America, of course, the talk has been consistently around are we going to put 95 million acres of corn in the ground? That's obviously very favorable for us. Our product portfolio is very, very strong right now. And we see not only pricing opportunities with additional productivity and yield that we're bringing in the portfolio, but also, again, just a larger planted area. [ph] Planting (00:28:42) progress, we're kind of right on where we typically see from a five-year window, not ahead, not behind. We've got a few favorable weeks. So, it looks like we have a very legitimate chance to put those 95 million acres of corn in the ground. E3 performance has been extremely good as well, our germplasm on the soybean side. So, from a North America perspective, 2025 looks like it's going to be another solid year of growth.

Let's shift down to Latin America now, this will be the first time in, what, the last four, five years we've actually seen an expansion in Summer corn planted area. Local economics for growers in Brazil right now with ethanol expansion, which I think Chuck mentioned earlier in the call, is really solid. So it's meriting more corn acres going into the ground, which is certainly a good thing. Safrinha, mid-single digit – low- to mid-single digit continued

expansion as we get into the fourth quarter, and we see the order book fill up and we start to recognize revenue for Safrinha that will go in the ground after the first of the year. So we feel very good about that.

Chuck mentioned licensing, we've had a big move, was just down in Brazil couple of weeks ago. We're working closely with a number of multipliers, bringing new germplasm, and obviously Conkesta E3 and make it available to a significantly larger percentage of the market. So we see a real opportunity for some lift there [ph] and (00:30:10) margin expansion. So, couldn't be more excited about where we are in North America right now. We've got to get the crop in the ground. And the demand signals coming from Latin America are good. And maybe just one final mention, our Summer book and our Safrinha book are well ahead of prior year's pace in terms of what we see coming on the corn side. So, I hope that answered your question. Thanks, Chris.

Operator: We'll move next to Vincent Andrews at Morgan Stanley.

Vincent Stephen Andrews

Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning. Chuck, wondering if you could color in your comments on the price environment in Crop Protection little bit more. And in particular, what's driving sort of the change in the sort of trajectory or cadence of the negative pricing? It seems like it's a little bit less negative, but for a longer period of time. And is that uniform across markets and products? And are you seeing anything different from the generic competitors today versus six, nine months ago, and likewise, versus your branded peers? Thank you.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. Good morning, Vincent. So why don't I have Robert give a perspective and then I'll come back with some higher-level comments. Go ahead, Robert.

Robert King

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

A

Yeah, Vince. Thanks. Price across for the year will dampen out as we get to the back part of the year, as we begin to lap last year. And so, your question there about, it looks like it's still there, but it's not as bad, is spot on. When you think about what's driving it and how does it look as we move forward, we're seeing some good signs of stabilizing coming out of China. The generics pricing out of there have been stable for several months. So that's encouraging. And that's something that we watch a whole lot.

This business has been a low-single digit organic growth business for a long time when you look at it over the decades, and it will return there. But we do need to see China's economy stabilize a little bit more, so that supply availability will tighten up a bit more. When we start to see those things, then we can start to think more about where's the bottom, what that look like, et cetera. But we're in a pretty good position as we move across the rest of this year with our pricing, primarily because our growth is all going to come from our biologicals and new products. And in those areas, as we've talked about before, we have a higher margin, higher premium on those because of higher technology and it's continued to be pulled by the farmers across as well.

So, we think we're in a good place. As it pertains to pricing, it is something that Chuck talked about earlier that we are paying lot of attention to, but you're correct that it will soften as we continue to move through the year. Chuck?

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. And maybe, Vincent, just a couple of my thoughts on this market. So, look, I think what we've seen over the last two to three years was almost unprecedented. And what it feels like to us now is that there's some stability underneath the market. It's not going up yet, but volumes are healthy in going into the channel, but the channels now are much healthier than they have been for the last two or three years. So, they're in the healthy ranges, which is what we needed to see. So we're seeing good volume.

There's good uptake and on-farm demand is still quite healthy and strong. So [ph] farmer (00:33:47) behavior, which is underpinning all of this is really quite healthy. And now what we're watching is just the generics coming out of Asia, and that seems to have hit a floor as well. So that's another positive indication. But, look, this is a competitive market, it's well supplied, you've got higher interest rates, so the channel is being very selective. All these things are weighing on the price volume dynamic. But when we sit here today, we're more encouraged today than we have been in some time. What we all need to see now, though, is we need to see sort of the generic pricing start to tick up a little bit in pricing, and that should turn the corner on in the industry.

One last comment is on Brazil. So Brazil is, it's going to have more acres, as Judd referenced. I think the channel is a lot healthier than it has been. And so we're optimistic that we've seen sort of, at least for now, the recovery in Brazil is well underway and that is a critical market for Corteva, as you know.

Operator: We'll move to our next question from Kevin McCarthy at Vertical Research Partners.

Kevin W. McCarthy

Analyst, Vertical Research Partners LLC

Q

Yes, thank you and good morning. Chuck, I realize it's been less than six months since your Capital Markets Day in New York. But I thought you might provide a brief update on the two new growth platforms that you unveiled there. It sounds like you're still excited about wheat. Maybe talk a little bit about the ramp to the economic opportunity? Are you still on track for a 2027 launch in hybrid red winter wheat? And any update on the winter canola for biofuels as you expand that pilot program?

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. Good morning, Kevin. Just happy to do it. So, on wheat, as I mentioned, it is – you think about wheat and we said this at the Capital Markets Day, it's the largest row crop by area, so 500 million acres worldwide. And if we can do what we did for corn almost a 100 years ago and hybridize it, it will move the needle from a technology perspective for farmers, and it will actually put a dent in global food security on a positive scale. So, this is a big deal for the world, we believe.

Corteva has what we consider to be a proprietary sterility system, which will change the economics for farmers, and we will be able to bring genetic gain to wheat. So that is really what we're trying to do. The crop that we had through our test plots this year, we'll be able to harvest them very soon in the next, I'd say, weeks. But we think that the initial unlock of yield will be somewhere between 10% and 20%. And our intention is to be a leader in this area and to do a combination of providing our own technology, but also to license the technology. And we are still on track for 2027 launch. And as I mentioned, this could be \$1 billion of revenue at its peak. So, pretty exciting initiative that the team at Corteva is very excited with.

Now, winter canola, so this is the second year of our pilot program, this is happening in six or seven states in the south here in the US. The crop did survive the winter quite well. Again, it will be later this month when we run it through and check out the yields. But [ph] – and all systems are go on (00:37:27) biofuels using canola, and we're

really excited about this. And this coming season we'll actually expand it from 30,000 acres approximately to maybe even in the hundreds of thousands of acres. So, it's starting to gain a lot of momentum. And again, the reason that there's so much interest in this is farmers have choice, so farmers can plant winter wheat or they can go to a canola option now, and it's quite profitable for them. And then, this is in conjunction with our relationship with Bunge and Chevron, where Bunge will take the crop and crush it into the oil and Chevron will move it into their biofuels. So, this is a kind of a win-win-win across the board. And I think farmers in the south are very excited about having options here.

Operator: We'll move to our next question from Josh Spector at UBS.

Joshua Spector

Analyst, UBS Securities LLC

Q

Yeah, hi, good morning. I wanted to ask two quick ones with the guidance around the tariff impact. So, it's a little bit confusing where you call out the \$50 million impact. You say actions are ongoing, but then your guidance says that you don't include the tariff impacts within there. So, can you clarify, I guess, that assumption, what you're baking in there? And just to follow up quickly on the FX side of things, I just want to be clear that Brazilian real exposure is locked in or if there's just, you know, we're not sure where rates are going to be in a few months from now and we're leaving that assumption unchanged? Thanks.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Good morning, Josh. Let me take the tariff question and then David can handle the Brazil real. So the way we're thinking about this is after a lot of work in this area, we've been able, what I would say, is to reduce the overall macro tariff impact on Corteva to around this \$50 million that we communicated today. And we have we feel very strong pathways to mitigate a lot more of this, but we need a little bit more time to finalize the action. So, because of that, we chose not to include it in the guidance range for now, as well as \$50 million with a \$200 million guidance range, it's very manageable. But when we get through the first half, we will hopefully have a lower number and we can give the net impact in our guide.

And the reason we chose to keep it separated just for one more quarter is because we felt it was important for investors to be able to see the core business unobstructed by tariffs. And we have, I think, a lot of mitigation steps that are going to bear fruit here. So, that's the thinking today. And we'll update the market as we know more. We're being very transparent that the number today would be \$50 million. But we feel that through network optimization, further cost, productivity actions, we can move a long way down the scale of reducing that further. David, the Brazil real?

David P. Johnson

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

A

Yeah. So if you look at the Brazil real, I think most people – we mentioned this before, our exposure is definitely back half related. So, about 85% of our total BRL exposure is in the back half of the year. As we sit here today, we are hedged at over 80% for Q3 and just under 20% for Q4. And we always layer that in as the exposures become more clear as we progress through the year. So, I think if you look at where we're able to forward hedge that right now, we're just under the 6.0% that we had put in our original guide. So I would say that that's slightly favorable to where we are right now. We're also looking at our exposures have gone up a little bit as we expect a little bit more volume and a little less price in Brazil. So all in all, I'd say pretty balanced right now. Again, we'll have a little bit more clarity at the end of Q2 and I'm sure we will update this assumption.

Operator: Next, we'll move to David Begleiter at Deutsche Bank.

Emily Fusco

Analyst, Deutsche Bank Securities, Inc.

Q

Hi. This is Emily Fusco on for Dave Begleiter. So, with the likely further share shift in Chinese soybean imports from US to Brazil, how is Corteva positioned for this and how much more profitable are soybean sales in the US and Brazil? Thank you.

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. So, good morning, Emily. Let's step back and then I'll have Judd talk about profitability between corn and soybeans for at least for Corteva. But the way we're thinking about this right now is farmers today are really focused on getting the crop into the ground. You can see the areas shift, right? So, they have sort of prioritized corn over soybeans at least this year because the economics make sense to do that.

Now, you're right to call out. So if you think about soybeans, 50% of the US soybeans are exported. And the three top destinations for this are China, Mexico and the EU. And those three account for 65% of that 50%. So, what we think is happening is a lot of this is already reflected in the trading markets and farmers can then make the proper decisions. What we're hopeful to see and what we need to see is that come harvest that some of these export markets reopen, so that the US farmers will be able to export soybeans around the world. And when you think about where else certain countries can get their soybeans from, what usually comes to mind is Brazil and Argentina, because they're also major exporters of soybeans. But what we would say is that Brazil and Argentina, they cannot fill the total global demand for soybeans, so US production is absolutely needed.

And it's very early, it's only May, but that's what we're hoping to see. And as this kind of works itself through, what we would expect to see is even further area shifts if this persists, and you may even see premium pricing for soybeans coming out of Latin America, because it will warrant it. So, lots to be determined on this question. But from a Corteva specific, from an economic perspective, maybe, Judd, you can answer that.

Judd O'Connor

Executive Vice President-Seed Business Unit, Corteva, Inc.

A

Yeah. So I think what you're seeing currently from a market perspective is both in North America and Latin America, just from where commodity prices are versus inputs, and farmer economics is saying 95 million acres of corn in the US, assuming that we have another few weeks of solid planning, and you see an expansion for the first time in Summer corn in Brazil and continued expansion, kind of low- to mid-single digits expected in Safrinha. So, good economics on the corn side in both markets. However, from a soybean perspective, still good, solid economics, lower input crop from a fertility perspective with soy. From a Corteva perspective, and I think we've shared this in the past, typically when we see 1 million acres shift go from soy to corn, it's about \$10 million to \$15 million of EBITDA shift internal to Corteva. And so, we'll see where we land. But those are the forecasts as we are today, and our order books would support that.

Operator: Next we'll go to Steve Byrne at Bank of America.

Stephen Byrne

Analyst, BofA Securities, Inc.

Q

Yes. Thank you. This out-licensing model that you've launched, is that targeting roughly 20% of the US corn seed market with these independent seed companies? Where do you see the potential for you to penetrate that?

You're using this PowerCore trait? Is that because there's no proteins in there that you've had to license? And then just one more on corn seed, specifically in Asia, that region represents 5% of your Seed sales, but it's a quarter of the global corn production. Is that a region that you think you can gain share? And if not, what's the challenge? Is it less desirable for any particular region?

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Yeah. Hi, Steve. Let me take the first one on out-licensing and then Judd can answer the Asia opportunity question. So, look, for us, the step back, right, we were an insignificant player when it comes to corn, but even soybean out-licensing. We've already pegged the global opportunity for corn and soybean licensing to be about \$4 billion, and it's really driven from the US and Brazil. So, that is absolutely the opportunity set. We have over 100 licensees of both corn and soybean right now. That list is getting added to. And from my perspective, I don't see why we can't have a meaningful share of that \$4 billion over time.

PowerCore is, what I'd say is our first foray into corn out-licensing. It's fantastic technology, especially when you put that trait technology with our leading germplasm, and you look at it as a full package and system, and it's competing very well, and the demand for it is increasing quite readily. So, I don't want to give you a specific number because I think the opportunity is to be determined, but there is no reason why we can't have our fair share of that overall out-licensing market and I'd say globally. APAC and our opportunity, Judd?

Judd O'Connor

Executive Vice President-Seed Business Unit, Corteva, Inc.

A

Yeah. So from an APAC perspective, you think about the region and you think about the various countries, a lot of smallholder farmers in APAC. There's some markets that we don't participate in as heavily as others. But you're right, Steve, I think there is certainly an opportunity for us to continue to expand our germplasm penetration in APAC. As we get additional countries that are looking at next gen technologies, i.e. gene editing, GMO, I think it will even allow us to have a broader presence there. But, big market, lot of acres, lot of smallholder farmers, very different than North America and Latin America. We've got a great presence there today. But I think it's fair to say that the team in APAC and we believe from an R&D and a commercial perspective that we can participate bigger in those markets. So, opportunity.

Operator: Our next question comes from Duffy Fischer at Goldman Sachs.

Duffy Fischer

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Good morning, guys. Kind of a specific question on your approach in Brazil between your Conkesta E3 and then the competing Intacta. So if you're pitching this to the seed multipliers down there, you could look, is the efficacy against bugs better with your product or is it relatively the same in Brazil having 2,4-D versus dicamba, is that an advantage? And then, are they getting a different price between the two, so there's more profit maybe with one versus the other? What's the pitch, I guess, to the seed multiplier, your product versus the competitor?

Judd O'Connor

Executive Vice President-Seed Business Unit, Corteva, Inc.

A

Yeah, so great question and thank you. And maybe, start from the top. First of all, from a technology standpoint, Conkesta versus Intacta, 2,4-D versus dicamba, we have very competitive technologies on both sides of that equation. We had been going down the path for a number of years of very much a branded business, and shifting

to multipliers and licensees expands our ability to penetrate the market significantly faster than if we try to do so within just a branded business.

Growers are looking for this technology and the efficacy and the utility of the technology, so we're excited about that. Multipliers are looking for another option and they want to be able to bring choices to their customer base. And so, those are the two big pieces of opportunity that creates. And maybe more so than anything else, it allows us to put our technology in the hands of more people faster and penetrate that space and make the technology available for them. So, we're excited about the move. We're in the kind of infant first to second year here. So we'll see this expand quickly and we'll certainly keep you informed as to how it's going.

Operator: Next, we'll move to Patrick Cunningham at Citi.

Patrick Cunningham

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. The Seed production costs were solidly lower in the quarter. And just want to understand the extent of commodity cost inflation hitting the P&L versus execution on productivity and how much of an offset the trait launches have been or will be for the balance of the year?

Judd O'Connor

Executive Vice President-Seed Business Unit, Corteva, Inc.

A

Yeah. So maybe I'll start and then throw it to David for the Ps and Qs. I think I think we were, from a cost standpoint, down about \$100 million in the first quarter. A big piece of it is commodity, a big piece of it is productivity. So it's both. We have seen continued improvement in terms of our licensing fees on the soy side and we saw some of that come into the first quarter. We'll see more of that as we get into the first half of the year. So, we've just got commodity going the right way. We've got a huge effort and a huge push around productivity. This has been a multiyear effort. It's coming to fruition at this point in time. And so it feels good. Second half, I think we should see something similar come through. But again, we have to deliver that and we've got to get the product in the ground. So, David, anything I missed there?

David P. Johnson

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

A

No, you're, pretty much for Seed, right on about \$200 million for the full year. We did see \$100 million in Q1. Kind of in Q2, Q3, we do see some of those offsets like the new trait introduction costs and those sort of things. So that's why it's a little bit front-end loaded in the first half. And in the back half, we are expecting about the same level. So if we add it all together, it's \$200 million for Seed, \$200 million also for CP. You'll see a little bit of that in the first part of the year also, mainly in Q1, because we saw the deflation kind of starting to level out. And remember, we saw some of that in the back half of the year. So that's why it looks a little bit more front-end loaded than when you look at Q1 versus our overall \$400 million for the year. But, again, we feel pretty good with where we're at, at this point in time on the \$400 million.

Operator: Our next question comes from Edlain Rodriguez at Mizuho.

Edlain Rodriguez

Analyst, Mizuho Securities USA LLC

Q

Thank you. Good morning, everyone. I mean, Chuck, one quick one for you. I mean, I think at the beginning of the call, you've described the ag fundamentals as mixed. Like, what concerns you the most? Is it the level of crop

prices that you don't think are fully supportive? Like, I mean, what do you [ph] think there the mix and sort of being good (00:53:32)?

Charles V. Magro

Chief Executive Officer & Director, Corteva, Inc.

A

Good morning, Edlain. So, here's how I'm seeing the global ag markets. And we said some of this already, right, but planting has went quite well so far this year and weather has cooperated. I think we're still expecting record demand for grains and oilseeds, which is a key barometer for me. Global inventories, especially with corn, they're relatively tight, and that you can see what farmers have done, right? They're going to plant more corn, which makes all the sense. And I think in the first quarter, we said it was going to be the year of corn and it's too early to call that, but it certainly looks that way to me.

And then on-farm demand, not only for the top hybrids and varieties, but also for the top branded CP technologies, they're robust. So, if you put all that into the positive comments that there's a lot there to like when it comes to the ag fundamentals.

The one area that we're watching, of course, is just if you look at crop pricing, they have come down a little bit, and that has tightened margins. Now, it's not consistent around the world. For example, Brazil, I'm seeing actually there's some higher pricing for crop prices and higher margins for Brazilian farmers, which is driving the behavior that we've just described in Brazil, and there's really solid fundamentals in Brazil. But margins have come off a little bit for farmers here in the United States. So that's the one thing that we're watching. And we haven't seen any behavior change, nor would we expect it. In fact, when things get a little tight, usually what happens is farmers actually invest in technology. And that's exactly we're seeing today.

So, when I think about the fundamentals, more or less I'd say there's some strength there. But then you have to kind of overlay and I don't want to bring it back entirely to trade and tariffs, but the second half of the year, we do need to see some export windows open up for the grain that will be harvested. And so that's another thing that are we concerned about? I'd say no, not yet, but it is something we're watching. And I think that this is all related, the macroeconomic plus the geopolitical landscape, I think that is all kind of built into the crop commodity trading prices right now. And we need to kind of see how that goes through the second half of the year.

The last comment, which we've already talked about, is CP pricing. So we've already made the change today that we think that the pricing for the industry will be down low-single digits for the full year. That is reflected in the guide. It's our best thinking today. And right now that would be our view and it is also, I think, a second thing we're carefully monitoring as we get through the first half of the year. Hopefully that helps.

Operator: We'll go next to Jeff Zekauskas at JPMorgan.

Jeffrey J. Zekauskas

Analyst, JPMorgan Securities LLC

Q

Thanks very much. What percentage of corn hybrids that you sell in the US are imported from other countries? And is that a source of tariff penalty? And for Dave, the EBITDA guide difference is \$200 million, but the cash flow expectation is \$400 million difference. What's it about your business where the cash flows are harder to predict than the EBITDA?

Judd O'Connor

Executive Vice President-Seed Business Unit, Corteva, Inc.

A

So, Jeff, thanks for the question. In terms of what percentage of corn hybrids that we sell commercially in the US come from outside of the US, essentially, the answer is zero. We have some parent seed in some of our facilities that come in from different parts of the world where we've got 24 – or 12-month a year growing seasons from parent. But almost exclusively around the world, I mean, and I want to say 90-plus percent of our production is local, which is why you see such really insignificant tariff impacts. So, maybe pass the second question or second piece of your question to David.

David P. Johnson

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

A

Yeah, so on the cash, the reason why we have that situation is, when you look at our cash flows for the year, a significant part of our positive cash flow is in Q4. And when you look at the different reasons for what drives that number, one of the biggest ones is the cash credit mix, which we don't know to very much into the year, almost into December, into different parts of December. So, that is a large driver of our overall number. I think when we look at Q1 and we're \$500 million better than where we were last year. So we obviously feel really good about that, higher EBITDA, better working capital. We can control the working capital, obviously, so I think we're in good shape there.

Operator: And that concludes our Q&A session. I will now turn the conference back over to Kim Booth for closing remarks.

Kim Booth

Vice President-Investor Relations, Corteva, Inc.

Great. That concludes our call. We thank you for joining and for your interest in Corteva. We hope you have a safe and wonderful day.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.

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