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CORPORATE PARTICIPANTS

Robert Reis *Nufarm Limited - Group Executive Corporate Strategy & External Affairs*

Greg Hunt *Nufarm Limited - Acting CEO*

Paul Binfield *Nufarm Limited - CFO*

Brent Zacharias *Nufarm Limited - GM Nuseed*

CONFERENCE CALL PARTICIPANTS

Mark Wilson *Deutsche Bank - Analyst*

Shane Bannan *Bligh Capital - Analyst*

Paul Jenz *Pacific Partners - Analyst*

Larry Gandler *Credit Suisse - Analyst*

James Ferrier *Wilson HTM - Analyst*

Richard Johnson *Citi - Analyst*

John Purtell *Macquarie - Analyst*

Ramoun Lazar *UBS - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Nufarm Limited interim results briefing. At this time, all participants are in a listen only mode. There will be a presentation, followed by a question and answer session. (Operator instructions). Please note that this conference is being recorded today, Wednesday March 25, 2015. I would now like to hand the conference over to your host today, Mr Robert Reis, Group Executive Corporate Strategy. Thank you, sir. Please go ahead.

Robert Reis - *Nufarm Limited - Group Executive Corporate Strategy & External Affairs*

Thank you, Clay, and good morning everybody and welcome to the Nufarm interim results Management conference call. Earlier this morning the results for the six months to January 31 were released to the Australian Stock Exchange. Over the next hour or so, Management will talk to those results and afterwards we will take questions.

This earnings call is also being webcast and you can follow the slides on the webcast with the link details available on the corporate website. A copy of the presentation was also lodged with the ASX a little earlier and can be downloaded from the ASX or from our corporate website. Participating in the call today are Nufarm's Chief Operating Officer and Acting CEO, Greg Hunt; Chief Financial Officer, Paul Binfield; and the General Manager of our seed business subsidiary, Nuseed, Brent Zacharias.

Before handing across to Greg to kick us off, I'll just draw your attention to the usual disclaimer statement in the side pack. Over to Greg.

Greg Hunt - *Nufarm Limited - Acting CEO*

Thank you, Robert, and good morning, everyone. The financial results for the first six months to the end of January represent a solid performance on an operational basis and demonstrates continued progress in ensuring that we have more discipline around areas of focus for the Company, such as working capital management. Despite headwinds and below average market conditions in a number of regions, we grew overall revenues by 4% on the first half of the prior year.

Underlying EBIT was up 12% and underlying net profit after tax was up a strong 41%. In relation to working capital management, we saw a significant improvement with average net working capital to sales at 43.9% compared to 49.4% in the prior first half period. The Board has declared a half year dividend of AUD0.04 per share, a AUD0.01 increase over the previous year.

Beyond what I believe is a solid set of numbers at the half year, we have in recent months continued with a program of change that will help lift the performance of the business over the longer term. This slide highlights the program where firstly we have made important announcements about the changes to the manufacturing footprint in both Australia, New Zealand and in Europe. We are continuing to implement better processes and systems that are generating sustainable improvements in the way in which we manage our working capital.

We have committed to an ambitious, but very realistic costs savings and performance improvement program that will deliver at least AUD100 million in benefits to the Company over the next two to three years. Finally, we are maintaining a relentless focus on lifting our margins, strengthening our balance sheet and improving the returns that we generate for our investors. I'll have more to say about some of these things later in the call, but I'd like to handover to Paul now to discuss the financials in some more detail. Thanks, Paul.

Paul Binfield - *Nufarm Limited - CFO*

Thank you, Greg, and good morning, everyone. Just after representing a period of steady achievements across the Group -- and we ended in significantly better shape than this time last year. Underlying EBIT growth has been delivered in all of the major crop protection regions.

Furthermore, we systematically continued to drive down net working capital and we remain on track to hit our target of delivering average net working capital over sales of 40% by July 2016. Group revenues are up 4% on the prior year. Underlying EBIT increased by almost 12% to AUD63.4 million at the half and underlying EBITDA of AUD102.4 million is more than 5% higher compared with last year.

The two key markets in this period are Latin America and the ANZ summer cropping season. After two seasons of rapid growth, the Brazilian market had a year of consolidation, reflecting average weather conditions and the impact of lower soft commodity pricing. Whilst Brazil sales revenue in local currency was flat compared to last year, a favourable product mix allowed Nufarm to capitalise on a number of differentiated offerings and improve profitability in the region.

In Australia, whilst the season started slowly with drier than average conditions, rains in December and January on the east coast ensured that we finished the half with excellent momentum. Activity in our seeds technology segment is skewed to the second half. However, the first half result was disappointing, with sales in a number of higher value segments being lower than the prior year.

That said, the outlook for the second half remains positive. We're forecasting earnings growth for the full year. Brent will provide further colour on this result later.

Underlying net profit after tax for the period was AUD26.5 million, compared with AUD18.8 million in the prior corresponding period. Net working capital improvements resulted in lower average net debt. However, this did not translate to a lower interest expense.

A strengthening US dollar in the period delivered net FX gains of AUD7.9 million compared with a net loss of AUD3.5 million in the prior period. As Greg said, the Board has declared a AUD0.04 unfranked interim dividend, a AUD0.01 increase over the prior period. So moving on to expenses.

It was pleasing to see the ratio of SG&A expenses to revenue remain stable compared with the prior year. Good cost control was also maintained at a corporate level, with head office expenses largely unchanged. As we move through the performance improvement program, operating expenses will come under increased scrutiny as we look to implement efficiency initiatives.

Greg will discuss this in further detail later in the presentation. The underlying effective tax rate was 30.8%. In the prior year at the half, we benefited through a number of one-off tax credits that have not repeated this year.

Our expectation for the full year is for an effective tax rate of around 30% to 31%. Now focusing on the impacts of foreign exchange. Relative to the Aussie dollar, a significant currency shift in the half was the strengthening of the US dollar.

The Brazilian real weakened, as did the Euro, and so the impact of currency on the trading result was minimal, with underlying EBIT adversely impact by currency by only AUD1 million. Nufarm entitites around the globe have exposures relating to funding and trading balances that are nominated in currencies other than their respective reporting currency.

We look to actively hedge the majority of such exposures, but in a small number of occasions, we're limited, where it's either impossible or uneconomic to undertake hedging activity. Consequently, we will always have some small unhedged exposures. In the first half, the net FX gain was AUD7.9 million compared with a AUD3.5 million loss in the first half last year. As I already said, this gain was largely driven by a strengthening US dollar in the period.

It is important though to point out that since January 31, significant currency weakness in a couple of developing markets, where hedging activity is currently impossible, has resulted in an FX loss in the month of February of approximately AUD5 million. This loss remains largely unrealised and may reverse prior to year end. Moving to working capital.

Net working capital at January was AUD167 million lower than at the same time last year. However, far more importantly, the average net working capital for the six month period was AUD160 million lower than the prior period, demonstrating that Nufarm is able to successfully operate on a sustainably lower level of working capital month in, month out. All regions continue to be very focused on reducing net working capital and this persistent, systematic approach is delivering sustainable improvements.

At the full year results announcement back in September, when our average net working capital over sales was 47.7%, we committed to targeting a ratio of 40% by July 2016. Six months in and we're almost halfway there. The average net working capital over sales ratio at January 2015 was 43.9% compared with 49.4% for January last year.

Good progress has been made on our working capital journey over the last two reporting periods, but we understand that there's plenty more to do. But with the processes and procedures firmly embedded in the business, we remain confident that we will hit the target of 40% by July 2016. Each key working capital metric shows improvements over the prior period, with significant progress having been made in inventory reduction, where stock cover has been reduced from 157 days to 118 days.

Furthermore, creditor days has been increased from 80 days to 107 days. Inventory improvements have been delivered by continued rollout and implementation of the integrated business planning process that we discussed during the last two period ends. IBP is a systematic process linking demand planning, procurement, manufacturing and portfolio management in a seamless manner across the business.

The increase in payables at the end of January compared with last year reflects the partially improved trading conditions, but also the benefit of getting extended terms with suppliers. If we just move to the working capital bridge now, I'll take you through how each of the regions has performed in this regard. All major crop protection regions contributed to the improved working capital performance.

Initiatives have been rolled out globally and the regional management teams have done an excellent job in disciplined implementation of the programs. The Latin American team has done an outstanding job improving profitability in the region in difficult business conditions, whilst at the same time they have dramatically reduced the capital base in the region. A key tool they have used is an off balance sheet debtors securitisation facility.

The benefit to the reorganisation of the ANZ manufacturing footprint are becoming more evident, with working capital in the region down a net AUD26 million compared with January last year. As part of the plant closure process, it has been sensible to undertake a limited and temporary stock build of AUD10 million to ensure continuity of supply. We estimate that this stock build will peak at between AUD20 million to AUD25 million at July 2015. In North America, there has been significant focus on the roll out of integrated business planning. Inventory levels have been reduced and there has been a laser focus on more active portfolio management to rationalise skews.

The team has also developed innovative programs to more effectively use terms from our suppliers to increase creditor days as well. The European Management team have also been very active in capital management and the recently announced proposal regarding the closure of the Botlek facility has potential to provide further momentum to reduce capital employed in the business. So finally moving to net debt and financing costs.

Net debt at January 31 in constant currency terms is almost AUD200 million lower than the prior corresponding period. This reduction has been driven by improvements in net working capital management as we already outlined. The net external interest expense of AUD30 million is in line with the first half last year.

The benefits of the lower average net debt however were not fully reflected in lower interest expense for a couple of reasons. Firstly, higher bank base rates in Brazil increased the cost of funding in the region at a cost of approximately AUD1 million compared with the prior period.

Secondly, we also sought to minimise the potential impact of what we feared was a possible currency devaluation in Argentina. We actively expedited customer collections in order to minimise our receivables exposure and in doing so incurred a financing cost of approximately AUD3.1 million. We viewed this as being an important risk mitigation tool in these unique circumstances and do not expect it to repeat in the future.

Subsequent to January 31, we took advantage of the favourable conditions in the debt market to partially refinance the revolving credit facility in a cost effective manner. This resulted in a minor increase in the facility size, but more importantly the extension of the term and reduced pricing of the majority of the debt. Now, I'll pass you back to Greg to go through a review of the performance of the crop protection businesses.

Greg Hunt - *Nufarm Limited - Acting CEO*

Thank you, Paul. I'll now move to some commentary on the performance of the crop protection business during the half year period. This slide shows you a total crop protection sales in the half increased by 5% on the prior period and represented 96% of total group revenues.

We saw higher sales in each of the major product segments, except for insecticides. Pleasingly, our average gross margin showed a slight improvement on the prior period. This is a key focus for the business and we believe that further improvement in average gross margins across our chemistry portfolio will be delivered over future reporting periods. This improvement will be driven by new differentiated product introductions, improved discipline around our portfolio management and efficiencies that will contribute to a lower cost of goods.

Looking at the key individual product segments, herbicides sales increased on the back of stronger demand for weed control applications in a number of markets, as well as the impact of sales of newly introduced products. Insecticide sales were down due to relatively low insect pressure in Australia and Brazil and while disease pressure was also relatively low in those markets, our fungicide sales benefited from a stronger autumn season in Europe and again increased sales of newer products.

Moving to the next slide, which shows our sales of revenue by region. This slide again underlies the balance in our geographical footprint. This is a clear strength of the business and mitigates the risk of exposure to poor or challenging conditions in any one of our geographic markets. Moving specifically now to the regions and starting with Australia and New Zealand, where sales were slightly down.

Underlying EBIT was up some 25% on a very low base from the prior first half period. Sales activity picked up very late in the period on the back of much needed rains in eastern Australia. After such a long period of very dry conditions, these rains contributed to a positive change in sentiment and immediate demand for product.

However, in Western Australia, conditions remain dry and more rain is certainly needed between now and the winter crop planting period to generate stronger demand for crop protection inputs. The manufacturing restructuring program that we announced last year continues on track and we are confident of delivering the annualised AUD16 million in savings that we forecast as a benefit of the changes that we are making. Moving to Asia, where sales were up slightly on the prior first half and underlying EBIT was a bit softer.

Asia is a work in progress for Nufarm. Whilst we have strong market positions in Indonesia and Malaysia, we are too narrowly focused into plantation crops. Therefore, we need to diversify into other crop segments and strengthen our presence in other regional markets in order to grow earnings in the region in a meaningful way.

To that end, investments are being made in new product developments that will allow us to build portfolios to address the rice and vegetable segments and we have opened offices in both Vietnam and South Korea to support sales of Nufarm branded products in those markets.

In North America, the region posted stronger sales and underlying EBIT results for the first half. However, the business in North America is heavily weighted to the second half, with the US spring season a critical driver of earnings for both our cropping and our turf and ornamental businesses. In the US, an early order program in the turf and ornamental segment was well supported and was important to showcase the broader portfolio that we can now offer, having taken over the distribution of the (inaudible) products last year.

In Canada, where Nufarm has established a strong differentiated position, several new products were launched that help us with a very relevant portfolio in the growing burndown and glyphosate-resistant markets. We have also undertaken a significant investment in the Chicago Heights 240 formulation facility to help ensure that we remain cost competitive in this key product segment. To South America.

The first half represents the major selling season and in particular Brazil, which represents almost 80% of our business in South America. The season was late getting underway, due to dry conditions and softer crop prices influenced a shift from corn to soybean and caused growers to look for opportunities to reduce their input costs. The devaluation of the Brazilian real however helped shield growers from the full impact of the lower crop prices.

Despite these headwinds, Nufarm's business performed very strongly and continued to take market share. While sales were largely in line with the first half of the prior year, margins improved on the back of a stronger product portfolio and very disciplined selling. This helped drive a more than 8% improvement in underlying EBIT in the region.

The business also performed strongly in Argentina, with sales well up on the prior period when measured in local currency. However, very high interest rates, rapid devaluation of the peso and the increased market uncertainty added to both the risk and the cost of doing business in Argentina during the period. Finally, to Europe, where total revenues were flat on the prior period.

Sales of Nufarm branded products increased by 11%. Conversely, technical sales, which generate much lower margins, were down on the prior half. This reweighting of the sales mix contributed to an increase in underlying EBIT.

Autumn conditions were generally favourable and our business in Europe continues to benefit from both new product introductions and a stronger focus on our core crop segments. In February, we announced a rationalisation of the European manufacturing footprint. This will involve the proposed closure of a facility in the Netherlands and the relocation of that capacity to an existing plant in the UK.

We are also investing in additional capacity in our formulation facility in France. These changes will improve utilisation and recoveries in the facilities that we are retaining, will lower our cost of goods and will support future growth in our European business. We are forecasting the changes to result in annualised savings of EUR16 million or about AUD23 million when this program is completed by the end of the 2016 financial year. I'm now going to pass over to Brent, to cover the seed technology segment.

Brent Zacharias - *Nufarm Limited - GM Nuseed*

Thank you, Greg. As alluded to earlier, we have had a disappointing first half, particularly in our Australian summer crop and China markets, which have traditionally lifted our average margins for the period. The first half continues to be a relatively low period of sales for the core markets we serve and is not indicative of our full year business outlook.

There are several factors that impact our first versus second half results, which are worth explaining in more detail, which I will cover in the next slides. While we discuss these in more detail, I think it's important to set the expectation that it will be typical for us to post lower gross margin segment sales in first half on an ongoing basis, given the timing of our core markets. Combined with close to 50% of the annual expenses, our typical business going forward will post negative EBIT results in the first half.

Given this, it may well be that the first half losses will be larger over time as we continue to grow the business. We have, however, continued to make excellent progress with our pipeline projects and we'll see stronger second half segment performance, which is expected to drive EBIT growth ahead of the prior year.

Next slide, moving to the mix of our first half. The first half mix is typical of margins from our lower value segments, which include forage sorghum, less differentiated seed treatment products and third party sales contracts in the USA, Europe and Argentinian markets. The Australian summer crop was reduced from drought conditions leading up to planting and while rains did come, it was too late for much of the key planting window for sunflower and sorghum grain crops.

In seed treatment, our first half sales were lower than the previous year, based on timing of sales campaigns in the USA as well as our global markets. Significant progress is being made on registrations and market access agreements in Europe and Latin American [soak].

The China confection sunflower market has seen deterioration and it is experiencing a significant market structure changes in proprietary sunflowers. Over the past 24 months we have seen numerous new local suppliers, producers, counterfeit brands and bringing company start-ups. This has resulted in two to three times the amount of seed supply available and what is required to satisfy the market. Value and volume of proprietary seed demands from non-national companies is dropping quickly.

The same phenomenon is taking place in other China seed markets, including corn. At our peek three years ago we captured just over AUD10 million in margins from our China position annually. While there has already been declining by approximately 20% per year over the past two seasons, we expect China to now represent a relatively small portion of our total sunflower margin this financial year and going forward. Our investment rate in and the go to market strategy for this market is under review.

China has however been a very good market for us for several years, enabling investment in other markets. Growth from USA and European oil and confection sunflower markets will be much more significant than the loss of value in China, going forward. We have just received multiple new sunflower registrations in Europe, providing greater opportunity. Our sales in the European and CIS sunflower segments alone will almost double this year, despite political unrest in the Ukraine and Russia and a cautious terms of trade approach from Nuseed.

Now moving to our areas of investment increase on the next slide. We have invested a meaningful expense increase year-over-year in the first half. This reflects our continued and increasing investment in our seed traits and seed treatment pipelines and commercial capabilities. The R&D total spend rate as a percentage of sales has increased to 10% to 12% in the seed technology segment. As technical confidence grows in specific pipelines and projects, we have started capitalising more of our total research spend and projects moved beyond discovery and early stage development to advance development in pre-commercial phases.

2017 through to 2021 will be key launch periods for a number of categories in our canola and sunflower pipelines. This includes, but is by no means limited, to our Canola Omega-3 platform. In terms of commercial capability expansion, there was a significant investment and expansion of commercial roles within the European seed platform and keeps the key original commercial roles for seed treatment in South America, China and Europe. As part of the Group's overall performance improvement program, the Nuseed business is targeting a number of meaningful efficiency gains. This includes a stronger discipline and application of SG&A and R&D resource allocation thus enabling greater focus on investment in our highest returning segments.

That leads us to the next slide relating to our high value segments. Our second half represents the timing of our highest value segments within Australian canola, USA elite sunflower, USA customised seed treatment, South America grain sorghum, global confection sunflower and elite European sunflower markets. Our margin performances continued in the 50% to 70% range and will improve with new product introductions over time.

We are experiencing steady growth and expansion in a number of high value markets. Australia continues to grow its hybrid canola share and value. Our canola platform is now expanding outside Australia into global markets and Europe is moving from a development market to a significant growth engine. Our investment in Beyond Yield traits both have fundamentally improved the [hybrids] in crop value by delivering new segment categories. New segments and expansion opportunities are predominantly sold in the second half.

I'll now turn to the next slide with some comments on the outlook for the Seed Technologies Group. We expect continued EBIT growth in FY15, but perhaps at a more modest growth rate this year, given first half conditions and possible risk points in the second half. We see possible risk with the Australian canola plant in Sydney. Total plantings could be reduced as much as 20%, given wheat versus canola commodity prices and dry conditions in WA, which would impact us, as the largest canola player in Australia, although share of our highest value canola hybrid market segments will continue to increase.

Efficiency initiatives are expected to offset some market downsides. Several initiatives are underway to drive greater efficiency in 2015 and future years. We also expect to see improvement in South American and European performance. Seed treatment expansion is expected in European and South American regions becoming larger contributors in 2015 and going forward, particularly with new product entries.

We are also continuing further field trials to support the pre-regulatory phase of our Canola Omega-3 project. Thus we maintain a strong medium and long term outlook. Our pipeline investment strategy focus on unique Beyond Yield traits. Our continued commercial capability expansion is on track. There continues to be a very strong improvement in our intellectual property and pipeline health. That is directly increasing both the financial metrics and our enterprise value expectations, as well as our ability to deliver step wise changes and value to the crops in which we are focused.

We maintain a very positive view on the outlook for the seeds business. I'll now hand back to Greg.

Greg Hunt - *Nufarm Limited - Acting CEO*

Thank you for that Brent. Before moving to questions, I'd like to make some comments on the outlook for the business for the balance of the financial year and then to provide you with some additional detail on our performance improvement programs.

To the outlook, as you will be aware, Nufarm's earnings are very much weighted to the second half of our financial year, which encompasses the major selling periods in our northern hemisphere markets and here in Australia. As Brent has pointed out, it is also increasingly the case that the earnings in the seed technology segment are skewed to the second half of the year. In terms of the outlook for our key regional markets, we have seen a more positive start to the period in Australia, with weather conditions much better than they were at the same time last year.

We are still looking for more rainfalls in the major cropping areas ahead of the planting period. But sentiment is generally strong and the business is very well positioned to generate a better second half performance. We are also encouraged by a shift to warmer weather in the USA and the increasing likelihood of more normal spring conditions. This is a critical period for our US business. While a better season will generate increased selling opportunities, higher than normal channel inventories in the US may weigh on the extent of that opportunity.

The second half in Brazil is typically a much lower earnings period for the business. Safrinha corn acres are down on last year and we are also seeing reduced cropping activity in several other segments. To the extent that we see earnings growth in the South American region this half, we expect it to be modest. The second half outlook in Europe is positive and we are forecasting both sales and earnings growth on the prior period.

Despite the segment earnings being well down at the half, we had the opportunity to post a strong second half period in the seeds business and we still expect to see earnings growth on a full year basis. Our working capital efficiency programs will continue to gain traction through the second half. We should come to the full year well on track to meet our targeted average networking capital sales ratio of 40% by 2016. We expect net interest expense to be slightly lower than last year and operating cash flow to be positive, but not to the same extent as last year.

So in summary and with the usual caveats around seasonal and weather conditions, we are confidently expecting to generate earnings growth at an underlying EBIT level on the prior year.

Moving now to our performance improvement program, I'd like to make some additional comments and details about the program.

We announced in early February that management was committed to achieving benefits of at least AUD100 million associated with a cost out and performance improvement program. That target is in addition to the previously announced forecast savings of AUD16 million, resulting from the manufacturing changes we are making in Australia. We believe that this program can generate a net benefit of at least AUD100 million over the next two to three years. Together with the growth we anticipate over that period and the improvements that we are making in areas such as working capital, those benefits will help us drive to a medium term target of 16% return on funds employed.

We also see a need to reinvest in the business so support further efficiencies and to support additional profitable growth. To the extent that reinvestment program will be determined as we continue to execute on the program. The program is not a one-off cost out exercise. Rather, it supports a commitment to drive fundamental and permanent change in the business that results in that better return to our shareholders.

This next slide points out that whilst the AUD100 million initial target was announced last month, it's important to understand that this work has been underway for nearly 12 months in terms of planning, analysis and resourcing. After initial work by the Company, external consultants were retained in the latter months of last year to help scope the details of the program and to assist with program design and resourcing.

A transformation management office is being set up within the Company and clear responsibilities and accountabilities have been established. We are striking a balance between getting on with the business and systematically reviewing all the areas of the business in order to identify and implement the changes and improvements.

This next slide shows that the program has been divided into four work segments that cover critical areas of the business, such as the customer or go to market activities, operations, where we are looking at the manufacturing footprint, manufacturing efficiency programs, supply chain procurement and logistics. Products where improvements can be made in areas like portfolio rationalisation and how efficiently we allocate capital to product development and finally, looking at our total SG&A cost base last year more than AUD500 million.

We see opportunities to remove duplication of resources and to optimise the management structures that support the business. We will announce more specific initiatives and associated projected savings in due course. But if you consider areas like procurement, where Nufarm total purchases are in the order of around AUD1.9 billion and we are not properly leveraging our total spending power or applying investing class processes and practices. We have some confidence that our initial savings targets are very realistic and achievable.

To the last slide. My immediate focus and priorities, and those of the Board and management team, are to deliver this year's budget outcome, where we confidently expect to generate an improved profit outcome on the prior year and show further meaningful gains on the working capital front.

Secondly, to ensure that the restructuring programs already announced are properly executed, completed on time and generate the benefits that we forecast. Finally, to drive further improvements and cost savings that fundamentally change the performance of the business over the medium to longer term.

I thank you for your interest in Nufarm and hand you back to Robert to introduce the question and answer session.

Robert Reis - *Nufarm Limited - Group Executive Corporate Strategy & External Affairs*

Thank you Greg. I'll hand back to the operator, Clay, to again remind you how to go about indicating that you'd like to ask a question. Clay, if you could throw to questions please.

QUESTIONS AND ANSWERS

Operator

Certainly. Ladies and gentlemen, we will now begin the question and answer session. [Operator instructions]. Your first question comes from the line of Mark Wilson from Deutsche Bank. Please go ahead.

Mark Wilson - *Deutsche Bank - Analyst*

Thanks very much, just a couple of quick questions about the guidance there for working capital and cash flow. Just wondering why you are indicating that working capital will be up year-on-year and cash flow won't be as strong as the prior year.

Paul Binfield - *Nufarm Limited - CFO*

Sure Mark. I think if you look at the focus that we have in the business, we have a clear view that the metrics that we want our business to focus on with average networking capital over sales. That's the month in month out improvement of working capital performance.

We really aren't focused this point in time and I refer you back to July last year. I think we came with net working capital then about AUD842 million. It was a significant reduction. At that time the working capital improvement process would have been running a few months. It just got traction. I think it is likely that what we're going to see in the full year FY15 is that the point in time networking capital of July 31 may well be higher than the prior period.

But the key measure, the key measure is going to be that the average networking capital over that 12 month period is going to be substantially lower, demonstrating the fact that we are systematically removing the capital base of the business and reducing the capital employed in the business.

So we're simply taking the market focus away from the point in time measure of July 31 and saying the real focus, the real value to this business was improved average networking capital. That's what our focus is. That's what we believe you should be looking at as well.

Mark Wilson - *Deutsche Bank - Analyst*

So if we do look at that measure as a percentage of sales, that will be down year-on-year?

Paul Binfield - *Nufarm Limited - CFO*

Correct.

Greg Hunt - *Nufarm Limited - Acting CEO*

So 47.7% at July last year, 43.9% as at January and we would expect to see a further reduction as at July 15.

Mark Wilson - *Deutsche Bank - Analyst*

Okay, great. Thanks very much.

Operator

Your next question comes from the line of Shane Bannan from Bligh Capital. Please go ahead.

Shane Bannan - *Bligh Capital - Analyst*

Good morning Paul, Greg. Could I just -- it might be pulling through the same crack as the previous question, but most of the heavy lifting in the working capital change has come from the shift in payables. You'd actually -- I'm just wondering what's the nature of the relationship with suppliers is likely to be if you are putting all the pressure back on them to do the heavy lifting in this regard. Because the impression I had earlier on was you were trying to rationalise down inventories over time, the burden of that, as well as presumably also receivables in terms of improving the collections.

So could I just understand where all the pushing and shoving is coming from in terms of getting this working capital down to where you want it? Because it seems to me at this point in time -- as I say, I apologise. We might be looking at the same sort of issue that Mark just raised and that is -- or you just raised Paul -- and that is we're looking at point to point. But there seems to be a lot of work has been done by the creditors' side.

Paul Binfield - *Nufarm Limited - CFO*

Yes, sure. Perhaps just focus -- I'm happy to answer your question in terms of payables. But certainly in terms of inventory, there absolutely is a huge focus in inventory. If you look at the key stock cover measure, down from 157 days to 118 days and we're confident we can take that further as well. So a lot of work has gone on in inventory and a lot further will happen. That will take our average networking capital in sales ratio down further.

Just turning to payables, there are a series of activities going on in this area. One of the things that we talked about back in September, if you remember Shane, was around our supply a financing program, where we've got a banker's entry sitting in between us and suppliers and essentially leveraging the difference in the credit rating of Nufarm and a number of our Chinese suppliers.

So many of them have lower credit ratings that us, as you would expect. We're able to use the supply financing program to our advantage, but to their advantage as well. It actually provides them with a cheaper form of finance. So we are approaching suppliers. We have agreed pricing and terms in place and the discussion is simply along the lines of we are happy to make available to you at no cost the supply financing program. This is how it works. But basically there is a benefit here for you. We want a share in some of that benefit in reduced terms.

In one supplier's instance, for example, we had fixed agreed pricing. We had terms of 45 days. Using the supply financing, allowing them access essentially to our credit rating, they increased terms by 60 days to 105 days. So Shane, we're not going out there and beating suppliers up and saying you've got to reduce terms. This actually is a very even-handed approach in terms of a win/win for both parties.

Now, it's coming through -- most of it is coming through supply financing program, but there are other programs that our businesses have in train, that basically are helping us get payables up and get networking capital down.

Shane Bannan - *Bligh Capital - Analyst*

So Paul, this shift is secular then? This is going to be sustained?

Paul Binfield - *Nufarm Limited - CFO*

This is a sustainable shift, yes, the program that we have in place. In fact, the beauty here Shane is that as we are going out to more suppliers, we're actually finding that some in western economies are finding this attractive. So our initial focus was obviously the Chinese and Indian suppliers, where the credit rating overcharge is more obvious. But we're also finding that there are suppliers in the States and Europe who are also keen to sign up as well. So it's sustainable and extendable.

Shane Bannan - *Bligh Capital - Analyst*

Right. Thank you.

Operator

Your next question comes from the line of Paul Jenz from Pacific Partners. Please go ahead.

Paul Jenz - *Pacific Partners - Analyst*

Can you hear us okay, Greg?

Greg Hunt - *Nufarm Limited - Acting CEO*

Very well, thank you, Paul.

Paul Jenz - *Pacific Partners - Analyst*

Just drilling into the product differentiation that seems to have driven some of this growth in the first half, are you able to talk about, I suppose, the amount of sales that you were doing in the crop protection that is branded versus, I suppose, the less branded type of sales? Is that moving in the right direction? It seems to be.

Greg Hunt - *Nufarm Limited - Acting CEO*

When we look at our total sales, we would say that probably 70%, 75% of it is in the more generic but also generic branded and 25% of it would be more in the differentiated. If we look at, I think, at the full year we talked about 100 new products that we would launch this year. If we go back to 2014, there was something like 200-odd new formulations that we delivered and there will be another 100 or more in this year.

When you look at where we are focusing our investment, I would say that it's probably 65% to 70% in the differentiated and 25% to 30% of it is in our generic business, which is still important to us. But the growth and the focus is going to come from those differentiated formulations and we would see and feel that over the next four to five years, that the percentage of our revenues will still largely be from that based generic herbicide business but increasingly from the differentiated products.

Paul Jenz - *Pacific Partners - Analyst*

Is Brent still on the line, Greg?

Greg Hunt - *Nufarm Limited - Acting CEO*

Yes, he is, Paul.

Brent Zacharias - *Nufarm Limited - GM Nuseed*

Yes, I am.

Paul Jenz - *Pacific Partners - Analyst*

Just on the seeds business, I'm interested in, I suppose, what sort of return on shareholder funds you're aiming for there, Brent, because basically that 30% to 40% gets you to that say 15% shareholder funds, if [250, 200] is your asset base but with the, I suppose, risk reward in that seeds, are you pushing for a higher return on shareholder funds there, Brent?

Brent Zacharias - *Nufarm Limited - GM Nuseed*

Sure. We don't necessarily disclose it by segment but I think to get to your question Paul, we do have absolutely an opportunity to be at a higher end of return on funds employed with this business and as you point out, while we have invested fairly significantly through the acquisitions we've made, which would, in some cases, probably make you think that it's more challenging to get to those numbers, in actual fact we are maintaining pace and we'll continue to focus on our return on funds employed in lock step with what Nufarm is doing with the overall group business.

So those higher margins, those higher value segments that I talked about being between 50% and 70% and growing in margin, it's really those that provide that growth engine to enable us to achieve those higher levels. But at the same time keep investing back in the business to the levels of R&D that we think is important to build to drive continuous improvement.

We tend to look on a little bit longer time horizons within the seed business, knowing that some of these R&D platforms are five to 10 years plus to deliver and receive the benefits of that now. So hopefully that answers your question somewhat indirectly but the return on funds employed from this business needs this to keep pace and probably move beyond that of our chemistry group in the medium and longer term.

Paul Jenz - *Pacific Partners - Analyst*

Okay. Final question back to Greg or maybe Paul. Just on the ability of Nufarm to keep this AUD100 million of costs out, is that based around this differentiation and this higher value added that you're really not looking to, I suppose, give it back to your customers and suppliers?

Greg Hunt - *Nufarm Limited - Acting CEO*

I guess one point, Paul, to draw out, to be clear. The figure we're talking about here is a net AUD100 million. So I think we have a clear expectation that our gross target is somewhat higher than that. There will be areas where we want to actively reinvest in the business, where we believe that we can get further efficiencies and further improvements. So I think you'll see a situation where the gross benefit is higher than AUD100 million but you will actually see elements where we're going to increase costs.

I think exactly as you identify there, things like go to market strategy and greater support for our sales people in the market is certainly one area of focus and a second area is around product development. So there will be key areas of reinvestment.

Paul Jenz - *Pacific Partners - Analyst*

Thank you.

Operator

Your next question comes from the line of Larry Gandler from Credit Suisse. Please go ahead.

Larry Gandler - *Credit Suisse - Analyst*

Can I return to the seeds business, Brent? Just a couple of points of clarification. First is can you be more specific about the canola seed -- sorry, the sunflower seed operation in Europe? You mentioned the Ukraine. Just wondering if you could give us some history and maybe the size of that opportunity.

Brent Zacharias - *Nufarm Limited - GM Nuseed*

Sure. Do you remember probably one to two years back, we would've described our European seed business as being in a relatively nascence position. We'd acquired one breeding program about four years ago now and had really been developing that whole pipeline as well as leveraging some of the work that we're doing outside of the US into Europe.

In terms of the sunflower market, about 70% of the world's sunflower market is in and around the Black Sea and extending its way all the way down into France. So Europe, as a whole category, is really important to us in terms of growth. We tend to divide that market in terms of how we look at it between western Europe and the CIS countries. So when I say that we'll almost double our sales year-over-year, Europe is still a relatively small portion of what our business is today but going forward is very important to us. It represents less than 10% of our total sales turnover today but is a significant part of what we're trying to do going forward, if that helps, Larry.

Larry Gandler - *Credit Suisse - Analyst*

Yes. Okay, that's good. The other point of clarification was CapEx. You suggested that some of the CapEx or some of the research might be capitalised or going through a phase where we're going to be capitalising more of it. Did I hear correctly there?

Brent Zacharias - *Nufarm Limited - GM Nuseed*

That is right, yes. So as we've described previously, I think in our last formal investment data, this question had come up and at that time we were capitalising quite a low percentage of our research at that time. As we move forward, we track it rather than as a broad policy, we look at it project by project and as projects move into or out of what we'd call discovery phase and into a past proof of concept and into pre-commercial phases, that's when obviously your technical confidence in the project goes way up and it's more about development at that point in time.

So we have several projects that have hit that stage gate, getting closer to commercialisation that we're now capitalised.

Larry Gandler - *Credit Suisse - Analyst*

Okay. Maybe Paul can just help out and give us a feel in terms of order of magnitude that we should see move from the P&L to the cash flow statement.

Paul Binfield - *Nufarm Limited - CFO*

Sure. If you - top of the head Larry, the figure is probably in the region of probably about AUD4 million to AUD5 million. If you look at the half, I think you'll see R&D expense in the P&L has gone from probably down to about AUD23 million, down to AUD18 million, from memory. In terms of our actual cash spend on R&D in the half, the actual cash spend is largely unchanged. So the difference represents the fact that we are getting, as Brent said, increased confidence in the quality of that pipeline. It's meeting the commercial thresholds to allow us to move into capitalisation.

So just to be clear, the accounting policy around the capitalisation is completely unchanged. It simply is the application of that to the respective projects is allowing us to capitalise at greater proportions to become more confident about the financial outcomes.

Larry Gandler - *Credit Suisse - Analyst*

Okay. Great. Thanks, guys.

Operator

Your next question comes from the line of James Ferrier from Wilson HTM. Please go ahead.

James Ferrier - *Wilson HTM - Analyst*

Good morning, gents. A couple of questions for Paul to start. You gave some guidance there for the net interest expense in the second half of 2015 to be slightly below PCP, I think. Can you clarify whether that is the all in interest expense you're talking about or the external interest expense?

Paul Binfield - *Nufarm Limited - CFO*

That's the net external interest expense that excludes FX gains and losses, James.

James Ferrier - *Wilson HTM - Analyst*

So if I'm looking at it correctly, the PCP figure was AUD34 million?

Paul Binfield - *Nufarm Limited - CFO*

For the second half?

James Ferrier - *Wilson HTM - Analyst*

Correct, yes.

Paul Binfield - *Nufarm Limited - CFO*

It would be that (inaudible), is correct.

James Ferrier - *Wilson HTM - Analyst*

Okay. Then the appreciation amoritsation charge in the first half was lower than the PCP. What are your expectations for the full year?

Paul Binfield - *Nufarm Limited - CFO*

Again slightly lower again compared with the prior period. I think it's at AUD1.5 million down in the first half, probably a similar sort of figure in the second half as well, James.

James Ferrier - *Wilson HTM - Analyst*

Okay. A question for Greg perhaps. Can you quantify for us what earnings were pulled forward in North America around the Turf and Ornamental segment?

Greg Hunt - *Nufarm Limited - Acting CEO*

I think that was probably -- is that in relation to the early order program, James, you mean?

James Ferrier - *Wilson HTM - Analyst*

Yes, correct.

Greg Hunt - *Nufarm Limited - Acting CEO*

Yes. So essentially the figure probably in revenue terms would be around about AUD20 million or so in sales, AUD20 million to AUD25 million in sales. Again the clear focus here is the desire to get our product on shelf. So basically we are simply having a closer look at the behaviours of some of our competition and have decided it actually made a lot of sense for us strategically to put programs in place prior to Christmas to encourage customers to ensure that we had product on shelf at the commencement of the season. So that was the full process behind that.

James Ferrier - *Wilson HTM - Analyst*

Yes, okay. So if you adjust to that, then perhaps the North American earnings were probably similar to the PCP?

Greg Hunt - *Nufarm Limited - Acting CEO*

You're correct. Probably a little bit higher but that would explain the majority of the delta.

James Ferrier - *Wilson HTM - Analyst*

Yes. Final question from me. A couple of years ago Nufarm talked about an earnings target in the seeds segment of AUD40 million or AUD50 million or AUD60 million of EBIT. Given what's been announced today and then the structural changes going on, are you still comfortable with that target?

Greg Hunt - *Nufarm Limited - Acting CEO*

The point I'd like to make is, and maybe Brent can comment some more, but whilst the half was disappointing, we think we do have an excellent team of people. We are forecasting a full year result that is an improvement on last year and we are still very confident in the pipeline and the future prospects for this business and in particular, things like the Omega 3 program. Brent, did you want to comment more specifically around the specific targets?

Brent Zacharias - *Nufarm Limited - GM Nuseed*

Sure. Yes. From my perspective and maybe the words we use is a very strong medium and longer term outlook. Getting to those levels is absolutely still on range for the Nuseed Group. I guess what we're trying to do is provide some perspective to the first half. The first half is always a pretty small snapshot of what we do in trying to provide a little more perspective in terms of what small movements can do in terms of what our first half result looks like for us.

But to your direct question, the guidance we provided previously in terms of the business getting to those levels of EBIT is absolutely spot on. I suppose, like any business, we have different market swings at different times that may impact how quickly we get to that number but really specifically talking about China, it's still a pretty small market relative to some of the bigger opportunities we have with the pipeline that we have.

If you look at our business, we've had a continuously growing EBIT line and health of business improvement but probably where we spend just as much or more of our time it's continuing to drive pipeline advancement and the things sitting in our pipeline is what gives us that confidence of getting to those numbers. So no, we're not moving away from that guidance whatsoever.

James Ferrier - *Wilson HTM - Analyst*

Okay. Thanks, Brent.

Operator

Your next question comes from the line of Richard Johnson from Citi. Please go ahead.

Richard Johnson - *Citi - Analyst*

Thank you very much. Greg, can I just clarify your outlook comments for Latin America. Are you saying that even with the crop being down 10%, that second half on second half you could still generate some modest growth? Is that what you're saying?

Greg Hunt - *Nufarm Limited - Acting CEO*

Sorry, just second half on second half?

Richard Johnson - *Citi - Analyst*

Yes.

Greg Hunt - *Nufarm Limited - Acting CEO*

Some modest growth.

Paul Binfield - *Nufarm Limited - CFO*

I think it's fair to say, Richard, that we typically make a very minor contribution in the second half in Latin America. I think it's fair to say that with the new crop looking a little softer, our expectation for Brazil in particular over that period would be perhaps in line with last year, perhaps a little softer. It's not going to be a major contributor in the second half.

Richard Johnson - *Citi - Analyst*

Great. Thanks, Paul. Then just two quick things on the balance sheet. Just going back to your comments about point in time working capital. Does the same thing apply to year end net debt levels so you'll see that move back up a little bit as at July?

Paul Binfield - *Nufarm Limited - CFO*

Potentially, yes, and another key driver there, probably a bigger impact on the net debt than on the networking capital is currency in the sense. Of course, we had the high yield bond out there, US denominated, unhedged, appropriately unhedged because it's obviously sitting in the US business. Therefore that may well cause net debt to be a little bit higher than prior period --

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Richard Johnson - *Citi - Analyst*

Okay but again - (inaudible)

Paul Binfield - *Nufarm Limited - CFO*

-- as we keep saying is the average figure and that's what we're working on day in, day out, and that's what we're delivering on.

Richard Johnson - *Citi - Analyst*

No, totally understood. I just wanted to clarify what the year-end position would be. Then finally, and I apologise for this, but can you remind me about the details of the off balance sheet program you have in Brazil and what the cost of that is?

Paul Binfield - *Nufarm Limited - CFO*

Yes. The sore point is it's a relatively new program and (inaudible) I'm not needing to remind you because as you say, it's been in place for the last few months. Essentially the cost of that funding is comparable with other USD funding. It is solely USD debtors that go in there. It's non-recourse and it simply was put in place because it was a very cost efficient way of getting additional tenor in the books.

So again it's a two year program and gives us a bit more tenor in terms of diversity away from the local bank debt market.

Richard Johnson - *Citi - Analyst*

Okay, perfect. Thanks very much.

Operator

Your next question comes from the line of John Purtell from Macquarie. Please go ahead.

John Purtell - *Macquarie - Analyst*

Good morning, guys. Just have a few questions, to start with two of them, if I may. Just in terms of, Paul, the FX loss in February of AUD5 million. Does that relate to the weakness of the Brazilian real, please?

Paul Binfield - *Nufarm Limited - CFO*

A little bit Brazil, John, but to be frank, the majority is the Ukraine. So the Ukraine had a bit of a disaster, or the griven had a bit of a disaster in the middle of February. It's actually come back a bit in March but that would be the single most significant impact. A lot of the Brazilian exposure, as you would expect, is hedged so we've had significant shifts in the reals but much of that has been hedged away.

John Purtell - *Macquarie - Analyst*

Second question, maybe one for Brent. Just to clarify the outlook comment there for seeds, particularly in relation to Australia in the second half. You note a risk of canola planting could be reduced. Just wanted to better understand what have you assumed there in relation to the outlook?

Brent Zacharias - *Nufarm Limited - GM Nuseed*

Yes. Really it's the next 60 to 80 days are critical for us. As you look at the market year-over-year, there's still a lot of growers trying to make decisions as to what they're going to plant. Do they plant wheat versus canola in this season? A lot of it is rain dependent so we have a significant amount of orders already in place for the business that gives us a confidence in a baseline for the business.

But if we do see very dry conditions continue, particularly in WA, and if growers perceive there to be a better risk reward to plant more wheat on balance than canola than they have in the last couple of years, then that triggers some risk for us. So we've already assumed in our outlook statements that we will be down in terms of total planting year-on- year but we are flagging that there is additional risk if we don't get some good planting rains coming into WA in particular.

John Purtell - *Macquarie - Analyst*

Thank you. Just two final quick ones. Just to clarify what Nufarm's current return on funds employed is. I just couldn't see it in the release this morning. The second question there is as far as the AUD100 million of targeted cost saves, what are the costs to achieve that? Obviously you've guided there around Europe but just the costs more broadly to achieve that. Thank you.

Paul Binfield - *Nufarm Limited - CFO*

So John, the return on fund employed is actually on the first one of my slides at the bottom left table there. So at the half it's 8.9% so that's 96 basis points improvement on the PCP. Again we'd obviously expect to see that lift in the second half. In terms of the costs of the program, again we're obviously in the process of slashing out details around those and I think it's fair to say that there will be some activity where the actual cost of implantation, for example, procurement savings, is going to be relatively minor, possibly even nil.

There are going to be other programs that are more structural in nature that may well incur some significant costs. I guess as we finalise our thinking on each of those and the phasing of those, then we will announce them to the market and keep you informed of progress.

John Purtell - *Macquarie - Analyst*

Just one final one. The European costs there that you flagged, they'll be taken as a significant item in the second half, just to clarify that?

Paul Binfield - *Nufarm Limited - CFO*

Correct.

John Purtell - *Macquarie - Analyst*

Thanks, guys, appreciate it.

Operator

Your next question comes from the line of Ramoun Lazar from UBS. Please go ahead.

Ramoun Lazar - *UBS - Analyst*

Good morning. Just a follow up question on the cash flow, Paul, just on CapEx. If you just provide us maybe some guidance around the second half CapEx number just in light of what was discussed around seeds. I think in the first half there was about 25% of net CapEx on PP&E and another 25% or 26% or intangibles and product development. Is that the sort of half year run rate you expect going forward?

Paul Binfield - *Nufarm Limited - CFO*

That's exactly what I expect to see going forward as well, Ramoun. So in terms of PP&E CapEx, somewhere between 45% and 50% and intangibles a similar level, perhaps a little higher in the second half but not much deviation.

Ramoun Lazar - *UBS - Analyst*

Then I guess the 16% medium target for ROFE sort of implies an EBIT of something around AUD350 million over the medium term. I'm just wondering, I mean part of that is obviously going to come from the cost out. Is there a specific or a couple of specific segments within the business that you expect will drive the broader group towards that number? Is it Latin America seeds or is it something else?

Paul Binfield - *Nufarm Limited - CFO*

I think the contributors to that improvement are actually fairly broad spread. As you said, obviously the performance improvement program provides a very significant list to continue focus on balance sheet reducing working capital. So very important in terms of improving returns.

If you look through the portfolio businesses, I think it's fair to say that the ANZ region, we've had some particularly difficult years there. We've done some great work around the manufacturing footprint there and expect to see a continuing list in profitability there. North America, we spoke about it at some length last reporting season with a particularly difficult result caused largely by climate. We would expect to see some good recovery coming through that as well.

Brent has clearly talked at some length about the prospect in seeds. We see some very exciting opportunities coming through in that area as well. Latin America, as you draw out again still this year has been a year of consolidation. We still see good prospects there. We have a good pipeline of products coming through and see the potential to grow that business further.

Europe, I think probably more mature, more stable. Again we have some interesting products coming through and again supported by what we see as a very important program in terms of manufacturing footprint rationalisation. So we're sitting here with a lot of opportunities and feeling pretty comfortable about that meeting term targets.

Ramoun Lazar - *UBS - Analyst*

Thanks, Paul. Just on the Australian segment, I think 12 or 18 months ago there was some targets put out there which sort of suggested you get back to an EBIT of about -- I think it was about AUD65 million over a two or three year period. Is that still sort of the number that you're aiming towards or are you more comfortable now with the way the cost outs have sort of progressed and the product development pipeline is developing?

Greg Hunt - *Nufarm Limited - Acting CEO*

I think, given what we are doing around the manufacturing footprint and costs out and the visibility that we've got on the pipeline and what's coming through in the next two to three years, we'd still be very confident that we would get back to that number.

Ramoun Lazar - *UBS - Analyst*

Okay. Thanks, Greg.

Operator

(Operator Instructions). There are no further questions coming through at this time so I'll now turn the conference back to Mr. Reis. Please continue, sir.

Robert Reis - *Nufarm Limited - Group Executive Corporate Strategy & External Affairs*

Thank you, Clay. Thank you everybody for joining us this morning. We'll obviously be following up with a number of investors and taking further calls over the next couple of days. So we look forward to discussing the result and the outlook of the business further with you over that period.

So thank you again for joining us today and we will see you soon.

Operator

Ladies and gentlemen, that does conclude our conference for today. We thank you for participating. You may now all disconnect.
