Start of Transcript

Operator: Thank you for standing by, and welcome to the Nufarm Limited Interim Results briefing 2018 conference call. All participants are in a listen-only mode. There will be a presentation, followed by a question and answer session. If you wish to ask a question, you will need to press the star key, followed by the number one on your telephone keypad. I would now like to hand the conference over to your first speaker today, Mr Mark Keating. Please go ahead.

Mark Keating: Thank you, Cameron, and good morning everybody. Welcome to the Nufarm 2018 Half-Year Results conference call. Earlier this morning the company released its results via the ASX, for the six months to 31 January 2018. A copy of the presentation we're using this morning was also released to the ASX, and can be found on our corporate website. Just before we start let me just draw your attention to the disclaimer on slide 2, particularly the section on forward looking statements and the non-IFRS information.

Participating in this morning's call are Greg Hunt, Nufarm's Managing Director and CEO, Paul Binfield, Nufarm's Chief Financial Officer, and Brent Zacharias, Nufarm's Group Executive for Nuseed.

After the presentation we will be happy to take questions. At that point, I'll hand back to Cameron to introduce the question and answer process. Now, I'll hand you over to Greg.

Greg Hunt: Thank you, Mark, and good morning and welcome to everyone on the call. The first point I'd like to make about this half is the progress that we continue to make on our efforts to build a better Nufarm, and to position the business for growth. We have been able to achieve strong revenue growth and market share gains in several of our regions, despite a market that is experiencing little to no growth. We have made good progress on our business transformation projects, and as you will be aware, we have announced the successful acquisition of two crop protection portfolios that will significantly strengthen our European operations, and our aspirations to grow in that market.

We are nearing the end of the heavy lifting in terms of cost out, business change, and transformation and investment, and importantly, we are seeing the anticipated benefit from those efforts and those investments. We are now a more robust and efficient business. We are well-positioned for growth, and some of the first-half highlights demonstrate the value of the work that we have done over the past three years.

As I said earlier, we have again delivered revenue growth against a backdrop of challenging industry conditions, while earnings were in line with guidance, they were lower in the first half of 2017, primarily driven by the scheduled downtime associated with the remediation and the upgrade of our Australian 2,4-D plant, and the challenging conditions in Latin America. However, we are confident of securing earnings growth over the course of the full year. The integration of the European acquisitions has been well-planned, and the execution is now underway.

We've secured approval for omega-3 canola in Australia, the world's first plant-based source of long chain omega-3s, and an important future growth platform of the business. Our performance improvement program will deliver the targeted $116 million of savings, with most of the 2018 savings being delivered in the second half. Our focus on average networking capital continues, with additional gains to be had on that front as we bed down our new supply chain system over the next 12 months.

Turning now to the headline numbers. We generated strong top-line revenue growth of 7% on the same time last year, and nearly 10% we measured in constant currency. We are confident that the business remains on track to deliver improved earnings for the full year. Margins in the first half were impacted by one-off items, notably the lost production associated with the planned remediation and upgrade of our Australian 2,4-D plant. This resulted in our profitability being lower then for the first half of last year, however, this investment has already started delivering increased production volumes and improved productivity overall.

The major selling seasons for Australia, North America and Europe are still ahead of us, and the outlook is generally positive. In addition, the food technology segment delivers most of its earnings in the second half, and is well-positioned to deliver an improved result for the full year.

For the half, underlying EBIT was down 12%, and underlying NPAT down 46%, mainly due, as we've already explained, to the manufacturing upgrade in Australia, and challenging market conditions in Brazil, and higher net financing expenses. We've continued to manage net working capital efficiently, with average net working capital sales at 37.8%, and it was only three years ago, at the end of the first half of financial year 2015, that this number was nearly 44%.

Turning now to a review of the regional results. Despite challenging conditions in Brazil, Nufarm increased market share when the total market in Brazil was down 7% in calendar year 2017. First half sales were $451 million, compared to the $467 million in the prior period. Underlying EBIT was $52.7 million, down 6%. Nufarm's local currency sales in Brazil were up 4%, driven by higher volumes, however, pricing pressure resulted in lower margins. The short-term pricing pressure resulted for the market not being able to pass on cost increases of active ingredients sourced out of China.

Weather conditions in Brazil were average, with soybean plantings delayed. The Argentinian season started well, but then turned very dry in December through February, and this impacted plantings and crop protection demand. Argentina sales were down 6% in local currency. Three key risk areas in Brazil are channel inventories, currency exposures and credit. Nufarm channel inventories are largely herbicides, and are well controlled with our sales in line with product used on the ground. Currency exposures were managed well, and exchange losses are below the guidance of the $1 million to $1.5 million per month in hedging cost. Network and capital showed an improvement on the prior year, with better collections and longer supplier terms.

The second half will be challenging for Brazil, with the delayed soybean season, reducing the second half corn plantings, and therefore, reduced crop protection demand, and continued dry conditions in Argentina. Despite this, we expect second half earnings in Latin America to be broadly in line with last year.

Despite winter market conditions, the first half sales of $301 million, that were generated from the Australian and New Zealand crop protection business. This is broadly in line with the $306 million in the previous year. Underlying EBIT was $6.5 million, compared to the $13.3 million in the prior period. In Australia, we have taken some bold steps over the past three years, to transform and strengthen the business. During this half we completed the merger of Nufarm and Crop Care sales organisations and brands, leveraging synergies, better-focusing resources, and enhancing our customer focus.

As previously mentioned, we completed the major upgrade of the 2,4-D plant. This included the installation of two new reactors and equipment that has already enhanced plant productivity. The plant downtime and other non-CapEx operational costs of these works totalled $7.6 million, which was the major factor impacting the lower regional EBIT result for the half.

It should be noted that upgrade works of this scale are only required every 10 to 15 years, and should be considered an important investment in our capacity to improve efficiencies, and to reliably deliver product volumes to our customers.

We continue our targeted campaign to win back volume and market share in our key high-volume herbicide products. These products are important to our customer relationships, and provide valuable throughput in our manufacturing facilities. We believe that we grew share in the first half with the total market down over the summer cropping season. We are optimistic about the prospects for the winter crop, given good late summer rains in the west, and recent rainfall in Queensland, and we are forecasting full year earnings to be broadly in line with last year.

We've had a very good half in North America, with crop protection sales growing strongly up 28% to $372 million. Underlying EBIT was $22.4 million, compared to the $17.7 million in the prior period, up 29%. The North American business has generated positive momentum over the past 18 months, with our core product range generating strong growth and pulling through sales of newer high-margin products. We are executing our plan to be a consistent and reliable supplier to our key customers. Seasonal conditions were average, with the hurricanes in Florida negatively impacting the turf and ornamental business, and pushing our logistics costs higher, by approximately $4 million. The second half outlook is positive for the North American business.

In our European business, sales grew by 15% to $173 million, underlying EBIT was $2.5 million, compared to the $8.8 million in the prior year. We grew branded sales in our hub countries by 14%, which we see as a real positive, however, the industrials business, which is our third-party technical sales, suffered from production outages and currency impacts. The margins on our export sales, based in US dollars into the Americas, suffered with a stronger euro and pound during the first half. This third-party business is predominately a first half business, and hence, represents a disproportionate component of the European result at the half.

Over the past three years, around 90% of our earnings in Europe have come in the second half, so it really is a second-half story. Seasonal conditions are generally positive as we move into the important spring season. We are very pleased to have successfully completed the acquisitions of the FMC Products and Century portfolios in the first quarter of calendar year 2018, with the Century acquisition having been approved by the European Commission without any remedies. The back office harmonisation project, which includes a new Oracle ERP system, and the set-up of shared services centre in Poland is tracking to plan. We expect earnings growth across the full year for the European business.

Finally, in Asia, crop protection sales were in line with the prior period at $95 million, underlying EBIT was slightly higher at $14.9 million, compared to the $14.5 million generated in the first half of financial year 2017. Sales in Indonesia were up 2% on the prior year, driven by better weather conditions, a stable glyphosate market, and increased volumes of phenoxy products. A competitive glyphosate market in Japan will negatively impact the second half. As a result of the lower Japan sales, we expect full year earnings to be slightly down on last year.

I'll now hand over to Brent Zacharias, who will cover the seed technology segment and provide an update on the omega-3 project. Thanks, Brent.

Brent Zacharias: Thank you, Greg, and good morning. The first half results for the seed technology segment, which covers our seeds and treats business, as well as our seed treatment chemistry, was a substantial improvement on the first six months of the prior year. The segment generated sales of $69 million, a 36% increase on the prior year. Pleasingly, EBITDA grew to $10.2 million, more than double the $4.5 million generated in the prior year. The improved result came from strong seed sales in Latin America, and higher seed treatment sales across all regions.

Australian canola end-point royalties were in line with the prior period. Nuseed continues to grow ahead of the market, driven by a strong pipeline of new products. We expect solid earnings growth from the seed technology segment for the full year.

I would now like to update you on progress relating to our proprietary omega-3 canola program. [Unclear] canola produces long chain omega-3 oils, similar to those found in fish oil, using a sustainable land-based source. It has been developed through collaboration between Nuseed, the CSIRO and the Australian Grains Research and Development Corporation. The crop will be produced under a stewardship excellence model, including closed-loop grain handling and oil processing systems, with Nuseed supplying omega-3 rich oil to a range of customers in agriculture and other industries.

We received regulatory approval for omega-3 canola in Australia in February, which includes production and the use in feed and human consumption. The Australian approval facilitates the submission of other regulatory applications in priority markets that recognise Australia as a reference country. Our North American approvals are progressing to plan.

The omega-3 canola program continues to progress towards commercial activity in 2019. Successful pre-commercial production of grain and conversion to oil from our US base, under the US Department of Agriculture notification process is facilitating downstream application trials. We have strong engagement from potential customers who are moving forward with application tests with their omega-3 product.

Nuseed's proprietary position in the technology continues to strengthen, with more than 50 patents granted, and more than 100 patents pending. We are well-positioned to be the first to market with a land-based sustainable long chain omega-3 solution.

Thank you. I will now hand you over to Paul.

Paul Binfield: Thank you, Brent, and good morning. As Greg has mentioned, this half represents another six months of solid achievement in keeping with our commitment to build a better Nufarm. We've delivered a good result against the backdrop of difficult market conditions, with little to no industry growth. These half year results also incorporates the impacts that have lowered our earnings result in this period, but they're not indicative of how we see things playing out over the course of the full year.

The major seasons of three of our larger regions, ANZ, North American and Europe, are still ahead of us, and it's [unclear] contributes [unclear] full year performance of these businesses. The outlook for these markets is promising.

In Latin America the overall market has been depressed, with the [unclear] industry sales falling about 7% in US dollar terms in calendar 2017. Despite this, Nufarm has enjoyed market share growth of almost 1%. We've also successfully completed two major strategically important acquisitions, with integration well underway, and as Brent said, we achieved another major milestone, our omega-3 canola project in relation to the Australian approval.

We're continuing to deliver our commitment to improve the quality of the business. So in the half year we generated excellent top-line growth, which is key to executing the performance improvement program, which is delivering net benefits beyond their expectations, and we remain disciplined in terms of our net working capital management.

Revenue growth has increased almost 7% compared with the prior year. In constant currency terms that growth is almost 10%. Gross margin declined 83 basis points, to 28.2%. But more than 50 basis points, that's almost $8 million. It is attributable to the cost impact of a scheduled plant remediation and upgrade works in Laverton, to install the new reactors for our 2,4-D [unclear] this facility. This will all ultimately improve long-term efficiency and productivity of the plant, and that will be a key contributor to ensuring the ANZ business makes up its first-half earnings' shortfall in the second half.

Underlying EBITDA of $123 million was down 4% compared with last year, but marginally up in constant currency. Underlying EBIT was down $10 million, to $75 million at the half, almost $8 million of this decline came from the cost impact for plant at Laverton, as already discussed. The results in Latin America is down by $4 million, half of this relates to currency, with a weak Brazilian real in this half, compared to last year, and the balance was [unclear] the impact of highly competitive market conditions in Brazil, we were able to grow volumes by 5%, but overall price declined by 2% in local currency terms. Group underlying net profit after tax was down $9 million, to $11 million.

So moving onto material items, which in the current period, were largely related to the cost of acquiring the Century and FMC product portfolios. We chose to hedge the purchase price of the Century acquisition, which was payable in USD, and at the start of January had an unrealised loss - so at the end of January, an unrealised loss on the hedge of $20 million.

By the time the acquisition closed in March, the subsequent weakening of the Australian dollar has meant that the hedge loss has almost completely reversed, so we've ultimately realised the hedge of only $1.8 million. So the majority of this material item, the loss of $20 million on a hedge, will be reversed in our full-year figures. We've also enjoyed a one-off benefit, $15.6 million in relation to US tax reform, and the impact of the reduced corporate tax rate on our deferred tax balances, as at 31 January.

So moving onto expenses. The expense to sales ratio was broadly in line with the prior year. Selling expenses were driven higher by increased freight logistics cost in the US, around $4 million, simply following the impacts of the hurricane at the start of the year, which limited the availability of freight options. We expect the impact of this to moderate in the second half. That said, we believe that we can do more to reduce operating expenses, and this will remain an important objective for management.

As we mentioned at the full-year results, further savings in SG&A costs will be realised as we harmonies back office processes and procedures across and within regions. This process is well underway in Europe, with a new Oracle ERP going live in five countries, and the remaining European regions will follow in the second half. We've also established a new shared service centre in Krakow Poland to handle the transaction processing activities for European businesses which we believe will enhance efficiency, lower cost, and strengthen process. The increase of the half in corporate costs relates largely to costs associated with investigating potential acquisitions which did not proceed. These costs will not recur.

The underlying effective tax rate was abnormally high in the first half, and reflects the mix of our profits in the period, and as is usually the case with the half, is not representative of our full-year expectations, which are still for an underlying effective tax rate of around 30%. We expect a modest benefit from the US tax reform, expecting the ongoing effective tax rate for the Group may fall to approximately 29% in the near term.

So moving to net financing expense. Net debt at 31 January, excluding the impacts for the proceeds of the equity raised, was $125 million higher than the prior year, driven almost exclusively by higher working capital. Net external interest expense at $42 million was formally lower than for the first six month of the prior year, due to lower bank interest rates in Brazil, and also the one-off benefit of the proceeds from the equity raised.

We settled the acquisition of the FMC portfolio acquisition at the start of February, and the Century portfolio last week, hence, for the full year we expect net interest to be in the range of $95 million to $100 million. Net foreign exchange gains and losses for the half were a little higher than expected, at $14.2 million.

Our performance in Latin America was largely in line with expectations of about $5.5 million, and continues to be well-controlled, validating hedge resources that we've engaged in this part of our business. We incurred a loss on the UK business of about $2.6 million, due to sterling being stronger against key trading currencies of USD and CAD. Our guidance for the second half remains unchanged, and we estimate the hedging costs going forward are between $1 million and $1.5 million a month.

So turning to working capital. Net working capital management and cash flow generation remain an important priority for the management team. A combination of the higher cost of raw materials out of China and higher sales has resulted in elevated levels of both inventory and in [debtors]. Average net working capital over sales is marginally higher than last year, but remains well-controlled. So we would expect to end the financial year with net working capital being broadly in line with the prior year, despite the strong sales growth, and for the average net working capital to sales ratio to be approximately 37%.

As ever credit control in LATAM remains a key focus, and whilst credit conditions in Brazil remain tight, we are encouraged by the improvement in our credit metrics over the last six months. We've seen [unclear] sales outstanding, [DSO] reduced by about 10 days, and the level of non-current receivables also reduced.

We're well-progressed of our project to strengthen and standardise the supply chain processes and procedures across the Group. This is a major project, and represents the platform to take our net working capital lower still. The rollout of this technology platform has been successfully completed, and whilst we expect to generate benefits in this project this year, in the form of lower working capital, the full benefits will not be realised until FY19.

So finally, the cash flow. I thought it was worthwhile to simply remind you of the nature of working capital cycle. For low points that working capital cycle is typically July/August. With three of our four main regions having a big selling season in the March to June period, there was a steady build in receivables inventory to the March/April period. Then we receive the bulk of our cash receipts from all four regions in May to August.

Consequently, you should always expect to see our net working capital to be higher at January, compared with July, and hence, for there to be a net operating cash outflow in the first half of our financial year. Despite the sales growth in the first half, underlying operating cash flow is in line with the prior year. So we’re making significant investments into the business in the current year, that will not deliver an immediate return, but which we’re confident provides a strong platform for future growth.

The omega-3 canola project, we have a further 18 months of significant investment as we continue to progress through the regulatory increased amortisation stage. This year we will invest $25 million into the omega-3 canola project. This will reduce to $16 million in FY19, and reduce to approximately $5 million ongoing. With regards to the translational technology project, our estimate of the full-year CapEx is around $40 million for the current year. This will reduce the $15 million in FY19.

So in summary, we estimate our current year total CapEx spend over all categories or capitals, so omega-3, IT transformation, product development and plant CapEx, to be approximately $180 million, reducing to close to $120 million next financial year, with a longer-term run rate of $120 million.

I’ll pass you back to Greg, who will make some comments on strategy, and take you through our outlook for the remainder of the year.

Greg Hunt: Thanks, Paul. Over many years Nufarm has developed a valuable global marketing and distribution platform through both acquisition and organic growth. Then delivering against our strategy, we’ve made important changes to make that platform more efficient, however, we are confident that we can drive even more value by strongly focusing on those markets, and those crops, where Nufarm can be most successful.

The key geographies that are our focus include markets that are large in terms of crop protection sales. They are markets where we already have established positions, and the potential to drive further growth and better returns. The core crops that are our focus are large consumers of crop protection inputs, and also have good growth prospects. These are soybeans, corns, cereals, pastures and TNVV, in other words, trees, nuts, vines and vegetables. We have strength in product portfolio and market positioned within these crops, however, we believe that there are opportunities to build on those positions. We believe that this more focused and deeper, rather than broader approach, will position us well with our customers, and will continue to drive better returns.

Some comments now on the acquisitions. Both of the acquisitions were completed in the first quarter of 2018. The acquired portfolios consist of well-known products, established brands and formulations, and registrations for the European market. The integration process for the acquisitions is underway, the new products are set up in our systems, and we have begun taking orders from customers. The recruitment of new sales and marketing resources is also on track, and resourcing arrangements for the new products are being established, whilst the transition sourcing agreements are in place for the first two years.

These product portfolios strengthen the company’s positon in our core crops and key markets in Europe, and provide additional scale that will make Nufarm more relevant to our customers. We are now determining the extent of current channel inventories for these products, however, with the seasonality of sales heavily skewed to the first quarter of the calendar year, we do not expect any material contribution from the newly-acquired portfolio in this financial year. Our contribution expectations for financial year 2019, however, we remain at between $110 million to $115 million at the EBITDA level, and between $55 million and $60 million at the EBIT level.

Now, looking at our growth opportunities more generally, the business transformation that we have driven over the past three years, combined with our focus on key geographies and core crops, gives Nufarm a strong platform to support future profitable growth. We believe that we can continue to grow relative market share in our hub-and-spoke countries, and in our core crops, with increased customer-facing resources. We will continue to improve the service level we provide to our channel partners, strengthening our relationships and standardising our sales processes.

Growth will also come to our product portfolio. We will address the product portfolio gaps in our key crops, leverage our current portfolio, and also consider partnerships or acquisitions of new products, or active ingredients, should they become available. We will continue to pursue additional value from our strategic partnerships, including the Sumitomo Chemical Company, which has some important proprietary chemistry coming to the market in the next few years. We recently extended our development and marketing arrangements with Sumitomo for a further five years. We believe that there will be further product acquisition opportunities as the industry consolidation drives further portfolio rationalisation amongst the major companies.

Our omega-3 canola program will continue on its commercialisation path, with initial sales expected in 2019. The omega-3 project gives Nuseed the ability to produce a reliable and highly scalable supply of omega-3 oil that will meet the requirements of valuable end-use markets.

Let me now turn to the outlook. We expect the global crop protection market to remain competitive, with low/soft commodity prices prevailing. However, the supply/demand balance, the key stock commodity is stabilising whilst the demand outlook for many agricultural commodities remains high. A positive second half performance is expected in Australia, North America and Europe, driven by revenue growth and cost-savings benefits. The Latin American business will be challenged in the second half, with corn planting impacted by the delayed soybean season, and the continuing dry conditions in Argentina.

A positive outlook for the Australian canola season, combined with Nuseed product launches, and higher seed treatment sales should deliver solid earnings growth for the seed technology segment over the full year. Brent has outlined the progress that is being made on the omega-3 canola program. As I have mentioned, there will be a minimal EBIT contribution from the European acquisitions in the current financial year, with the spring season largely completed. But again, we confirm the forecast, EBIT contribution of $110 million to $115 million, and EBIT contribution of $55 million to $60 million in the [unclear] financial year, from the acquired portfolios. Efficient use of net working capital, and improvement in cash flow will continue to be a focus for the company.

In summary, and given average seasonal conditions in our key markets, the business is expected to generate underlying EBIT growth of between 5% and 10% on the prior year.

To conclude, we remain focused on our roles, whilst maintaining the commitment to producing innovative, quality products, and providing a great customer experience. By building, and what has been achieved over the last three years, with the performance improvement program, and executing strongly on our focus strategy, Nufarm is well-positioned to continue to grow, and to capitalise on the many opportunities that are evolving within our industry. Thank you for joining our call. I'll now hand you back to Mark.

Mark Keating: Thanks, Greg. We'll now move onto Q&A, and I'll hand you back to Cameron, our operator, to introduce the session and step through the process for asking questions. Cameron.

Operator: Thank you. If you wish to ask a question, please press star then one on your telephone, and wait for your name to be announced. If you wish to cancel your request, please press star and then two. If you are on a speaker phone, please pick up the handset to ask your question. Your first question comes from Mark Wilson, from Deutsche Bank. Please go ahead.

Mark Wilson: (Deutsche Bank, Analyst) Thanks very much, Greg. I was just wondering whether you could clarify with the full year guidance of 5% to 10% underlying growth, what are you actually incorporating for the acquisitions? I know the language is quite broad there, minimal, but are you effectively assuming no contribution?

Greg Hunt: It's a bad line.

Paul Binfield: You're fairly faint there, Mark. I think what I got was the contribution from acquisitions in the second half. At this stage the expectation is it'll be a minimal contribution. So we're looking - I think we said in terms of the FMC portfolio, I think the EBIT contribution we guided to there was around A$1 million. I think in terms of the Century portfolio, probably somewhere between [0% and 5%], that sort of level. To be frank, Mark, the challenge we have here is that we closed the transaction less than a week ago, and at this stage we have little visibility over the short-term level of inventory in the channel. So getting a view on what those sales are going to be in the next two or three months is going to be very difficult to achieve.

Mark Keating: If I can just add to that, Mark, most of the sales for these products, for the spring season in Europe, which typically happens in January, February, March, I think where there may be some upside for us will be autumn sales, that typically will be in July and August.

Mark Wilson: (Deutsche Bank, Analyst) Great, thank you. Then just on that channel inventory point, can you just elaborate what you actually have to determine there?

Paul Binfield: It's not a case of discussions with customers in terms of understanding the timing of their purchases. So we have visibility around the level of stock that Adama and Syngenta are putting through channels for January and February - we're still waiting on the March figures obviously – there's been a monitoring trustee in place, and that basically has provided an overview to make sure that those two businesses have conducted themselves in a normal manner. So it's more a case of just getting the detail as to the level of inventory that's been put into the channel, or currently fits in the channel for those key products. It's going to be deeper discussions with customers, Mark.

Mark Wilson: (Deutsche Bank, Analyst) Alright okay, thanks very much.

Operator: Thank you. Your next question comes from Niraj Shah, from Morgan Stanley. Please go ahead.

Niraj Shah: (Morgan Stanley, Analyst) Hi guys, just a couple of questions for me. I think on LATAM firstly, you mentioned that there's a bit of short-term margin pressure, I guess what gives you confidence on being able to pass on higher input costs over the medium term?

Mark Keating: I think when you look at the channel inventories over the last two or three years in Latin America, they have been higher than normal, principally insecticides and fungicides. We have seen some of that inventory move through the market over the last six to 12 months, so any new products that are coming into the market are coming in at the new prices, and we're now starting to see that product move into the market at higher prices. It's really only happened in the last couple of months.

Niraj Shah: (Morgan Stanley, Analyst) Got it, thank you. Secondly, switching gears a bit, I was just wondering about the medium-term outlook of phenoxies, and perhaps your take on where Dow is with its Enlist technology. Maybe just more broadly, a bit of colour on market shares and participants within the phenoxies market.

Mark Keating: I haven't really had an update, but I think Dow are still waiting for regulatory approval from China. But I think just generally, when we look at the growing resistance to established chemistries, certainly in the burndown and post-harvest, we see good prospects for our 2,4-D business. We've certainly seen volumes in North America continuing to grow. Last year we talked about some of the lower demand in Latin America, but we're now starting to see - certainly in Brazil - increased demand for 2,4-D products. I think in Australia it's certainly the upgrade of the facility at Laverton, just puts us in a much stronger position, not only to supply the domestic market in Australia, but puts us into a more competitive position to supply into the Americas. So we really do see a positive outlook for our 2,4-D franchise.

Greg Hunt: Share between us and them.

Mark Keating: I think in terms of share, I just really don't know what - there’s no concrete evidence that looks at the share of phenoxy products in different markets. I certainly would believe that we would be holding our share in our key markets. The opportunity for Dow of course will be the ability, once they get approvals, to go over the top of the crops in North America and in Brazil. As I say, for Nufarm, we still see real opportunity based in the burndown and in post-harvest.

Niraj Shah: (Morgan Stanley, Analyst) Great. Thank you.

Operator: Thank you. Your next question comes from Grant Saligari, from Credit Suisse. Please go ahead.

Grant Saligari: (Credit Suisse, Analyst) Good morning, thank you. Could you maybe just expand a little on the increase in the sales marketing and distribution expenses line, which was up 12% year-on-year, and obviously had a revenue? It just sounds like it might be costing you a little more in terms of sales and marketing investment, but perhaps comment on that if you could.

Paul Binfield: Thank you, Grant. I guess something’s going on, on that line. First of all, there is a significant variable cost component there, so as the top-line grows, that line will naturally grow. As we mentioned, we had a bit of a one-off element in terms of official distribution costs, particularly in the States in that post-hurricane season, where simply availability of freight and warehousing just tightened up, and we incurred additional costs over that time period.

But I think the other point though, Grant, too is that we’ve made the point consistently that we are looking to make a far more efficient focus on our [SG&A] cost, you’ve seen that ratio actually fall in the last six-month period. The aim is that part of that will involve a degree of reinvestment into the frontend of the business in terms of the customer-facing resources, and hence, you’d expect to see a level of transfer between [SG&A and S].

Grant Saligari: (Credit Suisse, Analyst) Okay, thanks. In terms of the Australian business, what do you see in terms of pricing, I guess, margin pressure in the Australian business, just given some of the cost increases?

Mark Keating: Margins and prices have probably stabilised a little in the last six to 12 months. If you add back the impact of the shutdown to our margin results in Australia, they’re pretty much in line with last year.

Grant Saligari: (Credit Suisse, Analyst) Finally, just clarification if I could on the EBITDA guidance for the acquisitions, does that include the cost of the additional sales people that you're putting into that business? You've called out some numbers there.

Paul Binfield: Yes, it does, Grant. So essentially that's a net figure.

Grant Saligari: (Credit Suisse, Analyst) Alright, thanks for the clarification.

Paul Binfield: Thank you.

Operator: Thank you. Your next question come from Richard Johnson, from CLSA. Please go ahead.

Richard Johnson: (CLSA, Analyst) Thanks very much. Greg, you made a comment at the beginning around general trading conditions in some of the larger crop protection markets continuing to show little or no growth, and that's been a theme really that's been around for some time. I'm just really interested to get your view on whether there was anything structural that you can see behind that?

Greg Hunt: I think it's really a case of when you've got low, soft commodity prices, so you've got pretty high stocks generally in most of the major crops globally, farmers tend to go for a lower-cost option in terms of their crop protection, and that has benefited Nufarm and other off-patent crop protection companies. Certainly the latest forecast that we've seen from industry analysts predicting that 2018, small growth, and when we look at growth out for the next four to five years, the view is 2% to 3%, and again, that's largely driven by pricing around the major core crops.

Richard Johnson: (CLSA, Analyst) That's great, thanks. Then one thing in the result that caught my eye, is the revenue growth in North America. I was just wondering if you could perhaps give a little more detail around that, and the way we should think about it on an ongoing basis?

Greg Hunt: I'm not sure we can continue to grow at 25% to 30%, but a lot of that growth has realistically been in our high-volume herbicide products, which typically are at lower margins, apart from the increase in the freight cost that Paul mentioned, as those volumes grow it does impact on our margins. However, our fundamental belief is that once we grow our relevance with our channel in those high-volume herbicide products, that we can bring through higher-margin herbicides and insecticides, fungicides products. But it's been pretty impressive growth in North America, in our view, over the last two or three years, and we are certainly growing our relevance with the channel and with our customers, and we are now really considered as a strong and reliable supplier in that market.

Richard Johnson: (CLSA, Analyst) Great, thanks. Then I've just got a couple on omega-3. I don't know if Brent's still on the call.

Greg Hunt: Yes, he is.

Richard Johnson: (CLSA, Analyst) Okay Brent, just two things if I may. First of all, I was wondering if you could just update us a little bit on the competitive backdrop for omega-3. Then secondly, I notice in the slide you've got a bullet point just talking about cross-licencing again, and that ebbs and flows a bit, so I was just wondering if you could bring us up to date with where you are with that?

Brent Zacharias: Sure. I've got a couple of comments. First of all, just on size of the market, we continue to see a very significant demand and interest from a whole range of customers across both agriculture, human nutrition and many different sectors. So we see that as continuing to bring interest to the segment.

So there are other players outside of us that are pursuing it, and we do believe that we are in the lead positon, from a land plant-based source, and there are others out there participating. There has also been some interest in other technologies, [unclear] technologies or other types of approaches that are a much higher cost, relative to the advantages it will have in a plant-based system.

Really, from our knowledge, the other player that's seriously considering or pursuing this space is BASF, with their collaboration with Cargill, but with quite a different product than what we're looking at.

In terms of cross-licencing, I really don't have much more to update on that other than we continue to be open to that, as a means to add more value to our project, and that remains our stance, and we continue to be open to discussions with various players.

Richard Johnson: (CLSA, Analyst) That's great, thanks very much. That's it for me. Thanks very much.

Brent Zacharias: Thanks, Richard.

Operator: Thank you. Your next question comes from James Ferrier, from Wilsons Advisory. Please go ahead.

James Ferrier: (Wilsons Advisory, Analyst) Thanks for your time, gents. Maybe while Brent's got the floor, if I could start with a question on omega-3. There was a comment on slide 11 around nutritional studies, and excellent results from those. Could you, Brent, talk a bit about that, in particular, what sort of oil yields you're getting from the crop, and what sort of omega-3 content results you're getting in those trials?

Brent Zacharias: Sure. We've had some really promising results on the validation phase with our technology. The first area that we've been working diligently within is within aquaculture, and we've had some promising results that have been preliminarily announced from Nofima, which is one of the world's leading aquaculture research institutes based out of Norway. So that looks specifically at nutrition and in health within aquaculture systems, and confirmation that our oil that we've branded as AquaTerra oil can be used in partial or whole replacements of fish oil in fish feed rations. So that's been a fantastic confirmation.

We've also been working and looking at the human nutrition side, and have had some very strong positive feedback relating to the sensory profile of our product, from the perspective that it is plant-based and doesn't have some of the sensory attributes that fish oil has in terms of smell, taste, et cetera. We are moving into a full clinical trial with our oil on the human nutrition side as well. So those aspects are quite exciting.

In terms of the product, I think your question related to some of the fatty acid profile over product. We have a very DHA rich product, so the fatty acid profile is quite unique in that DHA is the fatty acid that's in the least supply globally, and at the highest value, in our view.

So that's been the focus of the product development and the technology. We can say that it's the first commercial product that we intend to produce, we'd have a minimum of 10% to 12% total long chain omega-3, which includes EPA, DTA and DHA, and within that we'd be plus or minus about 10% DHA. I'll maybe just also add that since our initial prototype, our ability to continue to improve the levels that we're getting out of omega-3 continue to go up, so we're continuing to develop even higher expression levels as we move through the program.

James Ferrier: (Wilsons Advisory, Analyst) That's very encouraging on the DHA, EPA content, very good result. What about the crop yield itself that you're getting out of the plant, the oil content?

Brent Zacharias: We were really pleased with the crop that we grew. As you're aware, we had 3000 acres planted in the US last year, and had exceptional results with it in terms of looking at the overall productivity of the crop, and the oil yields. But I will say that was really more of a prototype, so it was just outside of the typical growing region and timing. So we weren't really looking at it for a comparison to commercial productivity, we'll have a broader and greater production in typical canola growing zones and windows in 2018, with quite a few more acres in the ground. So that'll be another key milestone to us, but at the same time that we're doing this, we're also developing new and improved varieties with the technology embedded within it, so at this stage we're really encouraged.

James Ferrier: (Wilsons Advisory, Analyst) Okay great, thanks for that. Gents, back on the chemical side of the business, given we've seen some rising cogs, you've made note of that a couple of times, what sort of volume growth did you see in the period relative to that, I think it was 7% revenue growth?

Paul Binfield: To be honest, James, to pin that down, is difficult in terms of mix. I think the biggest market that we had going out of that timeframe, as you say, was LATAM, Brazil in particular, and in that region we had volume growth of about 5%.

Mark Keating: I think, James, just in terms of the cogs increases were largely driven by the reduced throughput through some of the plants in China, whilst they focused on some of the environmental and waste water issues. We're now starting to see those plants move back into normal production volumes, so again, starting to see some easing in terms of - because a lot of that cost and cogs increase was driven by supply constraints, and we're now starting to see that easing.

James Ferrier: (Wilsons Advisory, Analyst) Yes okay, that makes sense. Paul, with the amortisation on the two acquired businesses, have you given any further thought to what perhaps you believe is an appropriate level of amortisation to consider reflective of ongoing product development spend, versus what portion of that amortisation would be representing legacy asset values?

Paul Binfield: Thanks for the question, James. I guess the annual amortisation rate that we're going to see in the first couple of the years, with the two portfolios combined, is about A$54 million, A$55 million. So about $47 million on the Century portfolio, and about $7 million to $8 million on the FMC portfolio. As we've said, at the time of the transaction, the actual cash cost associated with maintaining those products in the market, and keeping both those registrations live, it's a bit lumpy, but you should think of it in that $3 million to $5 million per annum range. So an enormous delta between I guess the D&A component, so the actual cash outflow required to keep those products on foot.

James Ferrier: (Wilsons Advisory, Analyst) Yes okay, that makes sense. Last one from me, Paul again, on the cash flow and working capital balance, just in the context of coming out of an FY17 result where the end of financial year working capital balance was quite elevated. What change or what went on with this result, that we still saw quite a significant outflow in working capital?

Paul Binfield: I think it is disappointing, James, I think we had hoped for a better working capital result at January. The fact is we saw cost increases coming out of China, which obviously has increased the cost of inventory, as Greg said, that's coming off now to some degree. We're also seeing strong sales growth as well respectively, again, it's consumed some working capital, probably a higher level of growth than we would have expected. So in terms of the full year, we've guided that we expect to see, in spite of continued sales growth, get that working capital back in line with what we closed at 31 July last year.

Again, you know our business is very seasonal, we do get shifts and the shift in the seasons can have a big impact on that point in time measure, but we are targeting, across the Group, to have working capital at that same level as last year, as at 31 July, so probably more importantly the average figure, average net working capital over sales, we're targeting 37%, pretty much in line with the prior year as well.

James Ferrier: (Wilsons Advisory, Analyst) Great, thanks for your time.

Paul Binfield: Thanks, James.

Operator: Thank you. Your next question comes from Paul Jensz, from PAC Partners. Please go ahead.

Paul Jensz: (PAC Partners, Analyst) Can you hear us okay, Greg?

Greg Hunt: Yes, thank you, Paul.

Paul Jensz: (PAC Partners, Analyst) Excellent. I actually do have a first question for Brent, if he's still on the line.

Paul Zacharias: Yes, I am. Hey Paul.

Paul Jensz: (PAC Partners, Analyst) Thank you. Just with the business case around the omega-3 canola, with these large trials that you're doing, are you going through that business case, I suppose, scenarios, and working out how you're going to get paid in this closed-loop model?

Brent Zacharias: Yes, we are, and those continue to be the discussions that we have with potential end-use customers. The real benefit of what we've been able to do is produce significant volumes with our field program last year, with that oil now going into the hands of our potential customers, for pre-commercial trials. So as we go through this process with them in terms of both the product validation, as well as the business model discussions, it is something we've spent a lot of time on and have actually started to build quite a significant team around, in terms of how we engage directly with those customers, not only in terms of the business model, but also working with them in a real collaborative model, as they test and assess the products as well.

So it's certainly at that stage of the project now, and it's something that's the real focus over the next 12, 18 months, as we come into commercial phase.

Paul Jensz: (PAC Partners, Analyst) Just a supplementary one there, Brent, so have they essentially purchased the canola seeds at I suppose the base rate, and there's a profit share on the improved, I suppose, product in the yield that's coming through?

Brent Zacharias: No, it's quite a different business model that we are working through, and intending to use them, that is a complete closed-loop, whereby we facilitate the growing of the crop with the farmer, we facilitate the crushing of the oil with the processor, and we also facilitate the delivery of the oil to the end-use customer. So really, it becomes a transaction of the resulting product of the oil itself, to those customers.

Paul Jensz: (PAC Partners, Analyst) So really, the farmers then are just contract-type farmers, and is that the sort of way you've done these large trials, with a bit of a contract-type farming operation?

Brent Zacharias: Yes, that's right. So we engage with farmers and have them contract produce a crop that we then acquire back from them. Very similar to the model that we've used in other crops, with our Manola product in Australia, as well as some of our high-value confection sunflower programs, we manage those closed-loop contracting systems, so a very similar model.

Paul Jensz: (PAC Partners, Analyst) Okay. Maybe just back to Greg, if I can, just with this push into the seeds areas, are there areas in between the crop chemical businesses, and the seed businesses that you're ramping up? Obviously the coding's there, but are there other areas in that zone that you're looking to grow over the next couple of years?

Greg Hunt: Sorry, Paul, I found it difficult to hear you. I think your question was, are there synergies between the seeds business and the crop protection business. The short answer is no they're not significant. The crops that we are participating in, sunflower, canola and sorghum, they're not major crops in the way that corn and soybean, and cotton is, so the opportunity for us to use that platform to grow our crop protection business is not significant.

Paul Jensz: (PAC Partners, Analyst) Excellent, thank you.

Operator: Thank you. Your next question comes from Daniel Kang, from Citigroup. Please go ahead.

Daniel Kang: (Citigroup, Analyst) Good morning, everyone. Just wanting to confirm on the Century acquisition, has the Syngenta portion of the portfolio, has that also been fully approved? I thought your latest announcement related only to the Adama portion.

Paul Binfield: Correct. The Syngenta component has also closed as well, so that transaction is completed.

Mark Keating: It closed the early hours of Saturday morning our time.

Daniel Kang: (Citigroup, Analyst) Okay, thank you. Maybe, Greg, if you can just provide us some colour in terms of seasonal conditions for the second half, how it's begun across the regions, I guess particularly for LATAM and Australia?

Greg Hunt: Why don't I go around them all. If we looked at Europe, it has been quite cold, so it is delayed, but certainly not too late to be of concern to us. North America generally has been very positive. In Latin America, in Argentina, has been very dry, and at this stage continues to do so. Parts of Brazil are also dry, but generally the balance of it I'd say average. In Australia, we've had some recent rainfall which is very positive, however, most of Australia really is about the winter crop season, and it is too early to call. But if we can believe our friends at the bureau, the forecast is quite positive.

Daniel Kang: (Citigroup, Analyst) Got it, thank you. Just maybe a last one for Brent on omega-3 again. Can you update us on the next regulatory approvals that you're expecting? I guess the key is on North America.

Brent Zacharias: Yes, that's right. We have previously applied both in US and in Canada, those regulatory packages are progressing very well, and we anticipate to have approval in those countries within calendar year '19, so that's been very positive. As we've mentioned earlier on the call, getting Australian approval is a really key milestone in that we can now use that approval as we move forward, to applications in multiple other countries that we would like to have approval for, for import use.

So in particular, Asia becomes very important, so we will also be pursuing regulatory approvals within Japan, China, a suite of other countries. We'll also be applying, or intend to apply, for regulatory approval in Europe, and that application is well on track as well. So yes, it's still a significant part of achieving what we would call global regulatory approvals, but everything is proceeding exactly to plan, or ahead of plan.

Daniel Kang: (Citigroup, Analyst) Thanks for that, guys.

Operator: Thank you. Once again, if you do wish to ask a question, please press star then one on your telephone, and wait for your name to be announced. Your next question comes from Helen [Pelan], from Macquarie Group. Please go ahead.

Helen Pelan: (Macquarie Group, Analyst) Hi, thanks guys. Just two questions from me. Firstly, our ANZ business, Paul, you've mentioned about share gain in the first half, I'm just wondering what's our strategy going forward now that Crop Care and Nufarm brands are merged, and what's the upside from here in terms of share? Separately, in terms of the Laverton plant upgrade, it seems like there will be a bit of a second half catch up, which could be a benefit from the upgrade as well, so I'm just wondering what's the longer-term benefit from this initiative?

Greg Hunt: Thanks, Helen. I think just in terms of the Australian business, we have talked in the last 12 months about winning back some share, and I think we've been successful in doing that. I certainly wouldn't want to send a signal that the focus for the next year or two is going to be continuing to drive market share aggressively.

We feel pretty comfortable with where we are, I think the merger - if I can put it that way - of Nufarm and the Crop Care brands has allowed us to have more resources in smaller territories, which allows us to focus on customer and channel partner service. I think certainly the feedback that we're getting from the channel is that, that has been positively received in terms of the technical support that we can provide.

There has been some small synergies at the frontend, there's certainly been some synergies at the backend in terms of the manufacturing efficiencies. So I think the focus really is going to be now to consolidate the positon that we have in the market. What was the second part of your question? The plant?

Helen Pelan: (Macquarie Group, Analyst) Yes, the Laverton plant upgrade.

Greg Hunt: Yes, look I think it's difficult to be specific about just what the benefits are, but ultimately the real benefit, or one of the major benefits, is we were experiencing numbers of smaller shutdowns over the last two or three, or four years, simply because those reactors needed to be replaced. So we'd expect part of the benefit, apart from the plant being a lot more efficient, is the fact that we're not continuing to do regular repairs and maintenance, but we get the efficiencies of continued flow through the production facility.

Helen Pelan: (Macquarie Group, Analyst) Understood. Thanks for that. Just a second question around our European results, it was obviously softer than last year due to production outages and FX impacts. So I'm just wondering if you guys could lay out the impact between the two, and maybe just give us a bit more colour in terms of the production outages, was it planned?

Greg Hunt: No, the production outages there were not planned, but I think the real point is our European business, it's a A$600 million business, we've done about $170 million in the first half, so the majority of it comes in the second half. The margins on our branded business is higher than our industrial business. If we think about what potentially comes from [Surf] and Century, as I said earlier, I think we would expect a very solid performance from our European business second half.

Helen Pelan: (Macquarie Group, Analyst) Got it. Thanks for that.

Greg Hunt: Thanks, Helen.

Operator: Thank you. There are no further questions at this time, so I'll hand back to Mark Keating, for closing remarks.

Mark Keating: Just in closing I'd like to say, thanks everybody for your interest in the company, and for being on the call this morning. Over the next few days we'll meet up with a number of investors and take further questions, and continue the discussion on the results. Again, thanks for joining this morning, and thanks for your interest in our company. Thank you, again.

End of Transcript