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NUF.AX - Interim 2017 Nufarm Ltd Earnings Call

EVENT DATE/TIME: MARCH 21, 2017 / 11:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Thank you for standing by. Welcome to the Nufarm Limited interim results briefing. (Operator instructions). I'd now like to hand the conference over to Mr Mark Keating, General Manager Investor Relations. Please go ahead.

Mark Keating - *Nufarm - GM Investor Relations*

Thank you Bethany and good morning everybody. Again, welcome to the Nufarm half year results conference call. Earlier this morning the Company released its results via the ASX from six months to January 31, 2017.

A copy of the presentation that we'll be using this morning was also released in the ASX and can also be found on our corporate website. Just before we do start let me 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, Group Executive for Nuseed.

After the presentation, we'll be happy to take questions. At that point I'll throw back to Bethany to introduce the Q&A procedures. Now I'll hand over to Greg.

Greg Hunt - *Nufarm - MD and CEO*

Thank you Mark, and good morning everyone. It's my pleasure to welcome you to our conference call.

This half produced an excellent set of results and demonstrates the changes that we have made to the business that are delivering positive outcomes and are helping to build the platform for continued profitable growth.

It is particularly pleasing to see the Company generate that growth in a period where global market conditions were weak, and continue to be very competitive. Our revenue is up 15% on the first half of last year, and up 17% when measured in constant currency. We have underlying EBIT growth of 19%, underlying NPAT grew by 67% driven by the EBIT growth and the lower net financial expenses.

Working capital management will remain a strong focus for the Group, and we have maintained or remained below our target average net working capital to sales of 40%. Our net debt and average net debt were both down on the previous period.

Given the growth in performance over the first half the directors have declared an unfranked interim dividend of AUD0.05 per share, which is a 25% increase over the dividend declared for the first half of last year.

The result included increased sales in the crop protection and seed technology segment. We've also increased sales across all regions other than Europe which was down just 3% on a constant currency basis.

As I mentioned, the sales growth was achieved despite tough industry conditions, with the global crop protection market estimated to be down approximately 2% in calendar year 2016.

We also achieved a strong improvement in gross profit margin. We see this as a key indicator of the benefits from the changes that we are making in the business. Our performance improvement program remains on track and we are confident we can deliver the AUD116 million of net benefits we have committed to by the end of financial year 2018.

We are firmly focused on our growth strategy and the investments we are making to support the continued profitable growth in our business.

Before I hand over to Paul to run through the financials, I want to reiterate the awareness and cultural change that we are driving in the Company in relation to safety. As a normal part of our business, we manage significant safety risks, and that safety of our people underpins our improvement program.

We are focused on the step change safety strategy and we encourage a culture of reporting, learning from incidents, and continuous safety improvement. All reported incidents are investigated and we track actions to ensure improvements are implemented. The strengthening of our safety culture is a responsibility that I take seriously, and it will remain a priority for all of us.

I'll now hand over to Paul to run you through the key financials.

Paul Binfield - *Nufarm - CFO*

Thank you Greg. This half year result is a clear reflection of the underlying strength of the business and the benefits of the changes we're making. We remain focused on, and continue to deliver, on our commitment to improve the quality of the business.

In the half year period, we generated excellent top line growth combined with margin expansion, resulting in strong profitability improvements. We continue to execute on performance improvement programs which is delivering net benefits in line with or ahead of our expectations.

Our relentless focus on improving balance sheet efficiencies and net working capital reduction and is now non-core assets which is resulting in strengthening shareholder returns.

As Greg has pointed out this result has been achieved against the background of tough competitive conditions was that due to global crop prices putting pressure on both demand for and pricing of farm inputs.

Revenue growth has been impressive with 15% compared with the prior year. The benefits of the cost improvement program are evident with a stronger gross margin, up 84 basis points, at 29.1% which is a great outcome given the strong top line growth.

Underlying EBIT increased by 19% to a AUD85 million for the half, and underlying EBITDA of AUD129 million is almost 15% higher compared with last year. Net profit after tax is AUD20 million, an AUD8 million increase over the prior year.

Material items are minimal, just the net AUD200,000 [credit] relating to a divestment of our shareholding in Excel Crop Care that we flagged at the full year results.

Most of the heavy lifting associated with restructuring program now behind us, we do not expect any further material items for the balance of the year.

Later Greg will take you through a detailed review of the performance of each of the regions. But moving on to expenses. Net expenses grew largely at the same rate as sales revenue, and hence the sales to expense ratio is largely unchanged at the half.

The increase in the half in corporate costs relates largely to the performance improvement and the transformation programs that we're currently executing. We believe that we can do far more though to reduce operating expenses. This will remain an important objective for our management as we go forward.

As we mentioned at the full year results further savings and SG&A costs will be realized as we harmonize back office processes and procedures across and within regions. This process is well underway in Europe and we expect benefits start to flow through the results next financial year.

The underlying effective tax rate was abnormally high in the first half, and the first half tax expense includes the charge of AUD2.5 million relating to the recently legislated reduction in the French tax rates which has resulted in a onetime write down in tax assets.

The effective tax rate reflected the mix of our profits in the first half and usually the case the half is not representative of our full year expectations which are still on track from underlying effective tax rate of around 31%.

Net debt at January 31, is AUD71 million lower than the prior year, driven by proceeds from the sale of non-core assets, continued good working capital management, and the impact of a stronger Aussie dollar. Average leverage for the half is down almost half a term to 2.28 times.

Net interest expense at AUD46 million is AUD6 million higher than for the first six months of the prior year. Whilst average net debt over the six months is only slightly down on the prior corresponding period, the mix of the debt has altered with a greater proportion of debt in the higher interest classifications of Latin America.

For the full year, we still expect net interest expense to be below last year's AUD96 million, as guided back in September.

At the full year results we provided significant detail in the change in the structure of the Brazilian market during FY16 with customers' requesting to be invoiced in Brazilian Reais and US dollars.

In the first half of this financial year, we've seen a generally stronger Brazilian Reais and far less currency volatility which we saw during FY16. This has resulted in a greater proportion of sales being invoiced (technical difficulty).

This together with the extra resources we've employed in the risk management and treasury in LATAM, has meant the FX loss for the period is significantly lower than the prior year, and with our guidance of AUD1 million to AUD1.5 million per month that we provided back in September.

Turning to working capital. The last six months has seen a substantial improvement in the quality of our balance sheet, continue to manage their working capital very effectively and this has resulted in an average net working capital for the period being below the prior corresponding period in spite of a 15% revenue growth.

As a consequence, average net working capital over sales was an exceptional 37.1%. It will be difficult to maintain this production for the full year although we do expect to remain below this level at July last year. Sorry below the level of July last year.

A working capital headwind that we will face in the second half remains (inaudible) to credit for our customer base in Brazil. Long term receivables with balances not reduced in the last six months, and whilst we've not seen any material increase in the full rates, we remain very focused on our credit risk management procedures in that part of the world.

The record crop in Brazil this year should help to inject some much-needed liquidity into the market. The significant benefit of active balance management has been improved operating cash flow. Due to the seasonal nature of our working capital cycle, we would always expect to have a net cash outflow in the first half of our financial year.

However, the pleasing aspect this year is the AUD21 million improvement in underlying operating cash flow that we've seen this six-month period over the prior corresponding period. Particularly in light of a significant revenue growth.

We are well progressed with our project to strengthen and standardize 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 roll out for the demand planning module is now being completed, and the supply planning module roll out will be kicked off in the next quarter. Whilst we expect to generate benefits from this project next year in the form of lower net working capital, the full benefits will not be realized until FY19.

I'll now pass you back to Greg who will take you through a detailed review of the results.

Greg Hunt - *Nufarm - MD and CEO*

Thank you Paul. Just before going to the regional results, I want to touch on the major product segments. Our crop protection business generated AU1.31 billion in revenues which was an increase on last year's sales of AUD1.15 billion. Importantly though, these sales generated an average gross margin of 28.5% which was stronger than last year's 28.1% average gross margin.

Herbicide sales of AUD871 million were 15% up on this time last year. (Inaudible) sales are up on the first half of last year with improved volumes in Australia and North America.

[Phenoxy] herbicide revenues were in line with the prior period, however, the margin improved due to a better cost position resulting from the performance improvement program.

Insecticide sales were up 25% to AUD191 million over the half, mainly due to new product introductions in Brazil, with some of these new products sourced from Sumitomo.

We achieved increased fungicide sales over the half, up 5% to AUD123 million with most regions contributing to the result. The other products category grew revenues by 2% to AUD123 million. The main driver of the growth was the crop and equipment business based in Australia, aided by a record grain harvest in Australia, and increased capital investment from growers, crop (inaudible) was able to increase sales by more than 20% compared to the first half of last year.

As you can see from this slide we have continued to maintain a relatively balanced global revenue stream with a good spread of sales across our core regions. We believe that this geographical diversity is a key strength of the Nufarm business. It provides the Company with some protection against adverse seasonal conditions or other market or regulatory factors that may impact revenues in any one region.

I'll take this chance though to remind you that the key cropping periods in Australia, and most of our Northern Hemisphere markets occur in the second half of the financial year which typically generates 60% to 70% of our sales.

Turning now to the specific regional markets, sales of AUD306.3 million were generated from the Australian and New Zealand crop protection business, up 32% on the previous year. At the end of last year, I spoke about the need for the Australian business to work on the volume price and margin mix following a drop in sales in financial year 2016.

As a result, we set about reclaiming market share through our key channel partners to win back some volume of key commodity products. These products including glyphosate and the phenoxy herbicides are important contributors to the business and provide valuable throughput in our manufacturing facilities.

The first half revenue gains indicate that we have executed well on that objective albeit at the expense of some margin.

Underlying EBIT was AUD13.3 million compared to the AUD14.6 million in the prior period.

Climatic conditions in Australia contributed to a strong finish to large year's winter cropping season resulting in excellent grain harvest for most growers. The summer season started well in the key cropping zones of northern New South Wales and southern Queensland but then turned hot and dry in December and January. Promise of a much-improved summer crop did not eventuate.

In Western Australia, we received good rainfall over summer providing an opportunistic outlook for the coming winter season. The previously announced closure of the three manufacturing facilities in Australia and New Zealand is now complete. Two sites have been sold with the remaining site on market.

The full benefit of these changes will be realized in the current 2017 financial year, with lower fixed costs, better plant utilization, and improved efficiencies. The higher product volumes will help us capitalize on the restructuring program.

In North America, crop protection sales grew by 16% to AUD291 million. Underlying EBIT was AUD17.7 million, compared to the AUD7.4 million in the prior year. A very significant improvement.

A number of new products were successfully launched during the period helping to drive stronger margins and strengthening Nufarm's position with it's channel partners. We have now achieved growth over the past three to four reporting periods as we execute on our plans to be a consistent and reliable supplier to our key customers.

The implementation of Salesforce.com, a customer relationship tool, was completed in February and is resulting in better business processes, and better communication both within the organization and with our distribution customers.

The Calgary plant in Canada was closed last June, production moving to the Chicago Heights facility. The full benefit of these manufacturing efficiencies are also being realized in the 2017 financial year.

Despite challenging conditions in Latin America, Nufarm increased market share whilst maintaining a strong focus on risk management. Crop protection sales were up 13% on the first half of the previous year, and underlying EBIT AUD55.8 million, 3% down on the previous year's AUD57.7 million.

Nufarm's local currency sales in Brazil were up 9%. The business continues to enhance the portfolio with several new products launched in the first half. General inventory for our herbicide products is at normal levels. A stronger Brazilian Reais meant farmers delayed their purchases in anticipation of price reductions, and this led to pricing pressure in the market.

New investments to support product launches and to bring increased expertise to the treasury function resulted in a higher cost base in Brazil. Despite the pricing pressure and higher cost base we still grew earnings in Australian dollars.

Credit has been tight in the Brazilian market posing a challenge for our customer base. We have maintained a close focus on managing our exposure and will continue to do so. The record grain harvest will help ease these pressures and generate some much-needed liquidity into the system.

The Argentina business suffered from a delayed season due to excessive rainfall. This caused growers to delay purchases and created pricing pressure in the market. The Argentina result was also impacted by the exchange rate with the Argentinian Peso 60% weaker against the Australian dollar compared to the first half of last year.

These impacts resulted in Argentina earnings being 50% lower than the prior period in Australian dollars, and we expect second half conditions in Argentina to remain very challenging.

Sales in Europe were below the prior period by 15% at AUD151 million, only down 3% on a constant currency basis. Underlying EBIT improved to AUD8.8 million ahead of the AUD7.1 million posted in the first half of 2016.

Seasonal conditions were mixed, but generally unfavorable across north west Europe. These conditions resulted in weaker demand and there was some phasing impact as growers delayed orders in the current soft commodity price environment.

Despite the lower sales, new product launches, and a higher margin product mix, contributed to the improved profitability of the business.

The restructuring of the European manufacturing base is nearly complete. The manufacturing efficiency program is continuing at Linz in Austria, and Gaillon in France, in those production facilities.

A more efficient European manufacturing base is strengthening Nufarm's competitive position and lowering the working capital needs of the business.

In Asia, crop protection sales were up 32% to AUD94.3 million. Underlying EBIT was higher at AUD14.5 million compared to the AUD9.4 million generated in the prior period. Sales in Indonesia were well up on last year, driven by good weather and an early start to the planting season.

The early plantings impacted the phasing of sales which after moving into the first half compared to the second half last year. Also, continued good sales growth in Japan, China, and Korea.

I'll now hand over to Brent Zacharias who will cover the seed technology segment results.

Brent Zacharias - *Nufarm - Group Executive, Nuseed*

Thank you Greg. The first half result for the seed technology segment which covers our seeds and traits business, as well as sales of seed treatment chemistry with a substantial improvement on the first six months of the prior year.

The segment generated sales of AUD50.6 million which was 21% ahead of the prior period and posted a loss of AUD0.2 million at the underlying EBIT level, compared to a AUD4.4 million loss in the prior first half.

The improved first half results came from a combination of higher sales volumes and improved gross margin percentage. All regions performed well with Australia making a good contribution due to higher collections of canola and point royalties from the 2016 farmers save seed harvest.

Europe saw growth in its sunflower business driven by the launch of some stronger performing new hybrids and the Latin American business achieved significant growth in sorghum, sunflower, and canola products.

Seed treatment sales were also strong in Europe and Brazil, where successful new product launches again strengthened our position.

The Company today released an announcement detailing some important progress on Nuseed's proprietary Omega-3 canola program. This unique canola will produce long chain Omega-3 oils, somewhere to those found in fish oil using a sustainable land based source that has been developed through collaboration between Nuseed, the CSIRO, and the GRBC.

Turning to the next slide, it is estimated that the current value of the global Omega-3 oil market is $2.3 billion with projections that will reach $3.2 billion by 2023. The Company has completed preparation for regulatory approval of the Omega-3 canola with Australian filings having already been submitted to the relevant authorities and filing through the United States and Canada to be lodged before the end of this month.

Reaching these regulatory milestones in all three countries gives us both timing and location options as we commercialize our canola based long chain Omega-3. The submissions reflect our confidence and commitment to the science, safety, and global potential of our Omega-3 program which will target a number of valuable end markets including agriculture feed uses, and human nutrition products.

The crop will be produced under a closed loop grain handling and oil processing system. Later this year Nuseed intends to grow up to 4000 acres of Omega-3 canola in the US for pre-commercial production under US Department of Agriculture notification compliance protocols.

Pending regulatory approval, the commercialization of Omega-3 canola is expected to commence in 2018 or 2019.

I'll now hand back to Greg.

Greg Hunt - *Nufarm - MD and CEO*

Thanks Grant. I'd now like just to take a few minutes to reaffirm the strategy that we outlined last year. Nufarm has developed a valuable global marketing and distribution platform through both acquisition and organic growth. Our strategy is about driving more value from that platform by focusing on those core competencies that will take the business to a new level.

There are three main areas of focus. All geographies. These are markets that are both large and growing. Markets where we already have an established position, and the potential to drive further growth and better returns.

Core crops. Crops that have good growth prospects and crops that reflect our strength in product portfolio and market positons. Thirdly the improvement of our product portfolio in our supply chain ensures that we deliver high quality products and service to our customers at a globally competitive cost.

We believe that this more focused deeper rather than broader approach will drive better returns.

A few comments as an update on our performance improvement program. I can confirm that we remain confident of delivering on the previously announced AUD116 million of cost savings by the end of the financial year 2018. In this current 2017 financial year, we will deliver approximately AUD20 million of benefits which is an addition to the cumulative AUD75 million of benefits delivered to the end of the 2016 financial year.

As we secure these savings and improvements we are reinvesting in our systems, resources, and capabilities to drive sustainable business improvement, and to ensure that we have an appropriate portfolio to meet the needs of our customers in our core crops and key geographies.

In terms of customer excellence, our channel partners and end use customers are at the center of the changes and improvements that we are making. Our regional and country sales people are the key interface with our customers. We are supporting these people to improve our customer service with investments in CRM platforms such as Salesforce.com, standardized marketing tools, and customer feedback platforms.

We believe that we will attract additional customer support with a culture that is focused on providing the best customer service. Our portfolio solutions team is now more center led with investment decisions focused on developing solutions in the key crops that we have chosen to focus on.

We believe that we can drive better returns by leveraging the innovation and development spend across a smaller number of high returning projects. Portfolio team will focus on the growth opportunities available to Nufarm in the rapidly changing crop protection industry. The improvements in our supply chain activities commence with the implementation of our manufacturing footprint changes, and the manufacturing efficiency review programs at our major sites.

We also took the decision to drive our procurement as a center led function. By centralizing this function and lifting the capability of our procurement resources, we are able to leverage our global scale and buy-ins.

In our continuous efforts to improve our average net working capital, we are now investing in the implementation of a companywide demand and supply planning process and system. When complete, the new supply chain system will give us better visibility over our inventories and when and where product is required.

As Paul has indicated, we expect to drive further working capital improvements once the project is completed in the 2018 financial year. The other major business transformation project is the harmonization and standardization of back office processes globally.

As previously discussed, the program is on track for implementation in 2018. The outcome will be more efficient and integrated back office services and support.

Our focus on core crops and key geography segments where we can be most successful is delivering growth in a competitive global market. Better execution on product development and well-resourced product launches will continue to drive margin expansion. We will continue to pursue additional value from our strategic partnerships, including that with Sumitomo.

Of course, we're alert to the opportunities that might arise from the current round of broader industry consolidation.

Those consolidation moves may give rise to opportunity to secure assets that will strengthen our position in our core crops and key geographies, or add new growth platforms in our seeds business, or other segments where we believe that we can execute well.

We will be very disciplined in assessing those opportunities and we'll be focused on a strong strategic fit, (inaudible) value and the risks around execution and integration. Regardless of any such opportunities arising, I remain confident that the platform that we have built can continue to generate profitable growth over the long term.

Moving on to the outlook for the balance of this year. We expect the global crop protection market to remain very competitive with low stock commodity prices prevailing due to the strong crop harvests in most key cropping regions.

Positive second half performances are expected from Australia, North America, and Europe. This does of course depend on adequate rainfall in the winter crop season in Australia, and the summer cropping season in the northern hemisphere.

We have a reasonably strong performance from Brazil in the first half, however, the second half will be impacted by the likely later timing of sales and that of previous year when we posted an exceptional second half result.

Our Latin American business is also feeling the impact of very negative market conditions in Argentina.

In relation to seed technologies, the current outlook for the Australian canola season is optimistic with good moisture levels in the west and canola pricing attractive compared to wheat.

The second half period will also see more positive progress on the canola Omega-3 program as we continue to move through the regulatory process and advance pre-commercialization plans. As I have stated, we are on-track with our performance improvement program. We are committed to deliver an incremental EBIT benefit of around AUD20 million in this financial year.

We expect net interest expense for the full year to be moderately lower than the AUD96 million incurred in the 2016 financial year. Guidance for foreign exchange impact remains at the AUD1 million to AUD1.5 million per month of hedging costs for Latin America.

Assuming average seasonal conditions in major markets in the second half, we expect to achieve another year or improved underlying EBIT and profit after tax growth in financial year 2017.

Thank you. I'll now pass you back to the operator.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions). Your first question comes from Mark Wilson with Deutsche Bank. Please go ahead.

Mark Wilson - *Deutsche Bank - Analyst*

Greg, I was just wondering if you could elaborate on the guidance there. There seems to be a slight change where you are just looking for improvement as opposed to the solid underlying EBIT improvement. Is that just South America? How has the other regions changed from your expectations going back to September?

Greg Hunt - *Nufarm - MD and CEO*

I think if you take firstly Europe, we're behind at the half, but we're still confident that that's more of a phasing issues, and we expect a strong performance in the second half in Europe. I think Australia still remains quite a competitive market. But with the recent rainfall that we've experienced, particularly on the east coast in the last few days, you know we're going into a relatively positive winter cropping season, but as I say it's still a very competitive market.

It is quite challenging in Latin America, and as I said last year in Brazil we had a very strong June and July. You know as we sort of see things at the moment, we don't expect it to be that strong again this year.

North America looks pretty positive. In Asia, again some phasing there. We had a very dry season in Indonesia last year. It's been a lot more positive this year, but we had some early plantings there in the first half of this year. Some of those sales that we would normally have got in the second half are in the first half result.

Mark Wilson - *Deutsche Bank - Analyst*

Great. Just looking at North America, I mean that was a very strong result for the half. Are there any timing issues there with those early sales campaigns in turf and ornamental? Or was this just a function of business improving initiatives, new product launches and a lot of the other initiatives that you've introduced there.

Greg Hunt - *Nufarm - MD and CEO*

I think probably Mark, a bit of both. We did see another, or probably a more successful early order sales program in the T&O business which certainly did add to the half. But some of the product launches that we did this year, again, have added to that. But we would still be quite confident about an improved result in North America in the second half.

Mark Wilson - *Deutsche Bank - Analyst*

Okay. Thanks very much.

Operator

Thank you. Your next question comes from Brook Campbell-Crawford with JP Morgan. Please go ahead.

Brook Campbell-Crawford - *JP Morgan - Analyst*

Good morning Greg, Paul, and Mark it's Brook here from JP Morgan. A question maybe for Paul just on cutbacks in D&A. I know you've provided guidance for -- that the level of investments to remain elevated in the next couple of years. But just looking at it sort of into the medium term when would you expect cutback levels to come down towards D&A.

Paul Binfield - *Nufarm - CFO*

Sure Brook. Look the primary driver in terms of elevated CapEx really comes from the IT side. As we've talked about, we're embarking on quite a significant IT transformation program. So this year expectation is we'll spend somewhere between AUD40 million to AUD50 million in CapEx for IT alone. I expect that to continue into next year, into 2018 and will start to moderate into 2019 and track back to a normal level beyond that. So to the normal level probably closer to the AUD15 million to AUD20 million post that period.

In terms of plant CapEx, again I think we've seen a figure probably a little elevated in the first half. I'd expect the second half, the actual cash outlay in relation to PP&E CapEx to be a little lower, perhaps targeting something around AUD45 million for the full year. Again I would expect that level to be pretty similar going forward.

R&D I think you've seen a pretty consistent spend year-on-year. Again don't expect that to change. It might start to come up a little bit in 2019 as some of the spend on Omega-3 starts to drop away a little. But outside that a fairly flat outlook in terms of R&D CapEx.

Brook Campbell-Crawford - *JP Morgan - Analyst*

Thanks. Just one more from me, with respect to these product launches in the US which obviously benefited the numbers there in the period which is encouraging. Are we at the sort of early stage of a whole pipeline of product launches in the US as well, or is that level particularly elevated in the period that we've just gone through?

Greg Hunt - *Nufarm - MD and CEO*

Brook I wouldn't say we've got a significant number of new product launches. Just generally each year we have a number of product launches across the portfolio and in different regions. I think what we'll see in the future is rather than a significant number of new product launches they'll be smaller. But they'll be more significant.

Typically none of these product launches move the needle in a big way. It tends to be more -- smaller. The aggregation does make a difference. Some of the ones that I've referred to in North America and Latin America can sort of move the needle AUD2 million to AUD5 million but they're not blockbuster type products that you'd expect from the tier 1 companies.

Brook Campbell-Crawford - *JP Morgan - Analyst*

Okay, great. Thanks.

Operator

Thank you. The next question comes from Ben Levin with Credit Suisse. Please go ahead.

Benjamin Levin - *Credit Suisse - Analyst*

Hi Greg. Just two questions from me. The first is on M&A. It seems like there's a lot moving from some of your competitors who seem to be going out to market and sort of testing what's out there. I'm just wondering if you can make a comment as to what you're seeing, where you're at, is there anything out there that might be of interest for you at the current time?

Greg Hunt - *Nufarm - MD and CEO*

Yes, look Ben, I think the important point here is there has been no formal approval of mergers in the US and or Europe. Until the final details of the divestments, won't be known until those regulatory approvals are achieved. I think as we said before, where there are opportunities that fit in our now key geographies and core crops then we would be interested. We remain attuned to them but at this stage there's -- the detail -- we just don't have definitive detail.

Benjamin Levin - *Credit Suisse - Analyst*

Okay great, thanks Greg. Maybe one for Brent. It seems like the Omega-3 program is progressing quite well. I'm just wondering if we can get to a stage where you can talk to us about the economics of this where we can start to put some numbers around it. So in terms of what kind of price per tonne you might be able to get, what kind of yield you might be able to get out of the 4000 hectares. I'm just wondering if you can help us just to quantify some of this early stage information.

Brent Zacharias - *Nufarm - Group Executive, Nuseed*

Sure, thanks Ben. Maybe I could just make a couple of comments to put really high level perspective around it. The fish oil market today is relatively capped in terms of the amount it can supply. It's about 900,000 tonnes of supply. The industry estimates are that over the next 10 years we're going to need roughly twice that amount to feed the needs of both increases in aquaculture production as well as still trying to address the vast deficit of Omega-3 in human diets.

Fish oil trades generally between AUD2000 and AUD2500 a tonne. So that deficit that you look at, that we project in the market, needs to be filled by some new novel technologies. That's really where we feel the scalability of our program can have a significant impact.

So that might give you a bit of perspective in terms of what's out there. Of course there are other alternatives for players trying to go after that space as well. But we feel very, very good about the distinctive position we have with our high DHA product concept.

Benjamin Levin - *Credit Suisse - Analyst*

Right. Thanks for that Brent. Maybe just -- I don't know if you disclosed it before -- but per hectare how much fish oil do you think you might be -- could you get out of your canola? Is that something you could give us a feel for?

Brent Zacharias - *Nufarm - Group Executive, Nuseed*

Yes, I can just comment that our canola program with Omega-3 has progressed very, very well. So you would expect very similar levels of oil out of our program as you would out of a commodity canola type. So on a hectare -- sorry on a tonne of canola there's generally about 40% oil that gets produced. We would be very similar to that with our program.

Then of course it depends on the total expression level of Omega-3 that you can achieve. We have not disclosed that sensitive market information just yet. But that gives you some perspective that really, you're using the very same canola production base that you have today and the cost of goods -- of canola today -- that can then supply readily to the -- those volumes we previously discussed.

Benjamin Levin - *Credit Suisse - Analyst*

Okay, perfect. Thanks Brent. That's very helpful.

Greg Hunt - *Nufarm - MD and CEO*

I guess Ben just to add the financial element here. It's just important to understand that certainly the plants we'd be looking at for this financial year is -- or for 2017 -- is very much a pilot program in the sense of us getting out there to start to grow this in larger quantities. This isn't really a significant financial play. It's more a case of getting out there to understand how the crop performs on a larger scale. So in terms of modelling as I say don't get carried away in terms of Omega-3 for 2017, 2018.

Benjamin Levin - *Credit Suisse - Analyst*

Sure, no worries. Yes it was just more to understand the economics of this project now that it seems more tangible. Thanks both of you.

Operator

Thank you. Your next question comes from Andrew Scott with RBC Capital Markets. Please go ahead.

Andrew Scott - *RBC Capital Markets - Analyst*

Good morning gents. I just want to ask a few questions if I can just on the Australian business and I guess the shift in your approach. Obviously we've seen a big step up in revenues but obviously step down in margins as you've been more competitive or aggressive on pricing. I'm wondering on that if you could just first of all give us some numbers around what you've seen in market share there.

Secondly, what have you seen in terms of competitive reaction from your competitors and in particular the traders and to what degree do you view this as the new normal?

Then finally, where would you view a maintainable or long run margin for this business Greg?

Greg Hunt - *Nufarm - MD and CEO*

I think Andrew if we sort of back up probably a year, a year and a half ago, we always -- we set ourselves the objective of getting the Australian business back to sort of AUD60 million, AUD70 million run rate EBIT business.

The cost-out program, we targeted around AUD30 million. We still believe very much that we're on track to do that. I mean the market has become probably more competitive over the last 12 to 18 months. A year ago we really took the decision to focus on trying to improve margins. That did come at the cost of some volumes to the extent that it impacts negatively on the through-put through the plants.

So we are determined to be price competitive in the market particularly on our key commodity products. Our margins will increase as the benefit of the volume increase impacts on our product unit costs.

Andrew Scott - *RBC Capital Markets - Analyst*

Thanks Greg. Anything on where you would -- you share in how you view that changing over the period?

Greg Hunt - *Nufarm - MD and CEO*

Well I think probably over a four or five year period we've probably lost maybe somewhere between 5% and 10% market share. Our view is that we want to build a business that has a maintainable position around a 30% market share.

I think it's difficult to get definitive numbers. But we're probably under that at the moment. But it's about building our cost base and getting that volume margin price mix so that we can generate good returns by targeting around a 30% market share. That's where we're focused.

Andrew Scott - *RBC Capital Markets - Analyst*

Okay, thank you.

Operator

Thank you. Your next question comes from Nirav Shah with UBS. Please go ahead.

Nirav Shah - *UBS - Analyst*

Hi guys, just a quick one from me. Just a bit of color around how you're seeing channel inventories. You commented on Latin America but perhaps the other key regions that feature I guess more prominently in the second half?

Paul Binfield - *Nufarm - CFO*

I think probably in Australia there is probably higher inventories than we've seen for a while. I think there was clearly an expectation that there would be a better summer crop season. That's why we're seeing conditions in the Australian market quite competitive at the moment.

In Europe again it's been -- with the seasonal conditions I think there are -- I wouldn't say they're elevated but there's certainly inventory in the system. As I said before I think it's -- well we are behind at the half. It's a big challenge to get to where we need to in Europe but we're reasonably confident of achieving that.

In North America certainly in relation to herbicide inventories, we don't believe that there is significant channel inventories there. We're seeing what we would probably consider normal inventories. But certainly in Brazil we're still seeing, particularly in relation to insecticides and fungicides, relatively high levels of inventory.

Nirav Shah - *UBS - Analyst*

Great, thank you. Just a second one from me. I'm just wondering if you could quantify I guess revenues from Sumitomo products sold during the period and I guess the opportunity you see there over the next couple of years.

Paul Binfield - *Nufarm - CFO*

I think last year it was about AUD120 million, AUD130 million -- AUD170 million total last year. I think we're really taking it -- I guess if you look over the next three to four years at what Sumitomo has got coming through the pipeline there are some significant opportunities for us. But I would like to see us get that up closer to AUD200 million but it's going to take a couple of years to do that.

Nirav Shah - *UBS - Analyst*

Great, thank you.

Operator

Thank you. Your next question comes from James Ferrier with Wilson. Please go ahead.

James Ferrier - *Wilson - Analyst*

Good morning gents. Congrats on the result. There was an earlier question about new product launches and the margin benefit that came with that, so just following on from that question. You saw basically a full percentage point increase in the gross margin. If you strip out Australia it must have been much stronger than that as well. So could you perhaps help quantify what cost-out benefit came through that line in the first half versus what benefit you did get from new product launches?

Paul Binfield - *Nufarm - CFO*

Yes I think James it's pretty fair to say that there were some nice product launches. As Greg mentioned they are largely niche. They aren't moving the top line an enormous amount. As that margin expansion -- what you're seeing in this first half is really just a continuation of what you have seen in the prior two halves, being the benefits of the cost-out program, so the plant closures and our procurement program, and particularly the plant efficiency exercises really coming through. So it is largely a cost-out story James as opposed to being product launches.

James Ferrier - *Wilson - Analyst*

Okay, so on that basis can we go -- you could almost go as far as to say you've banked the AUD20 million on a run rate basis in the first half then, it looks like.

Paul Binfield - *Nufarm - CFO*

I think the work that we've done in terms of quantifying the benefits indicates to us that probably a good chunk of that lift -- you see a [AUD71 million versus AUD85 million] in that first half is from those run rate savings in terms of cost-outs.

We still think AUD20 million for the full year is about the right sort of figure in terms of expectations. So don't -- again don't forget we're cycling what was a very good half last year. So still expect to see AUD20 million for the full year.

James Ferrier - *Wilson - Analyst*

Yes, sure, okay. Thanks Paul. Paul, while you're taking questions we're probably still a couple of years off this, but have you given any thought to the US dollar notes and what your plans might be in terms of rolling or switching those?

Paul Binfield - *Nufarm - CFO*

Yes, it is a couple of years off. I mean it's fair to say James right now that the high yield bond market is running pretty hot. I think we're in a position whereby we're still -- what is it -- two, two and a half years out. Whist not definitive, probably we wouldn't act until we get past that second year anniversary.

But certainly going back to that market for a further bond issue some time down the track, would be an option that we would consider. It's served us really well. It's been good long term funding at competitive rates. All we're seeing now, because we've had a good track record over the last five years, is compression further on those rates and I guess on some credibility with the Nufarm name as well. So it certainly would be a market we would closely look at.

James Ferrier - *Wilson - Analyst*

Okay. Just a final question from me. Can you remind us of the rough earnings split in Latin America between Brazil, Argentina and other markets?

Paul Binfield - *Nufarm - CFO*

Yes, in terms of -- if you're looking at the full year you'd be looking at something like 75% Brazil, probably about 15% to 20% Argentina and MCC -- so Mexico, Colombia, Chile -- being the bulk. Albeit this year as Greg has mentioned in his comments, Argentina is having a really tough season.

So we had rains at the tail end of last harvest, so around the May time which really affected the ability of the grower to get on to the paddocks and take the crop off the field. Again heavy rains in the planting season this year which has basically delayed the season. It's made it ultra-competitive. So margin, both volumes and margin are well down in Argentina right now. That's a problem area for us in terms of the LATAM region.

James Ferrier - *Wilson - Analyst*

Yes, so the 15% to 20% is reflective of the more normal, more typical --

Paul Binfield - *Nufarm - CFO*

Yes, that's correct.

James Ferrier - *Wilson - Analyst*

Okay, thanks for your time.

Paul Binfield - *Nufarm - CFO*

Thank you.

Greg Hunt - *Nufarm - MD and CEO*

Thanks James.

Operator

Thank you. Your next question comes from Larry Gandler with Credit Suisse. Please go ahead.

Larry Gandler - *Credit Suisse - Analyst*

I'd just like to continue with a couple of questions on M&A. Greg -- so I think Greg as I understand it your strategy sort of carves out geographies and crops. But I don't recall -- did you have a preference for certain types of pesticides whether it be fungicides or insecticides -- is that a preference over, say herbicides?

Greg Hunt - *Nufarm - MD and CEO*

Well I think certainly Larry our core expertise is in herbicides. I mean we do obviously sell insecticides and fungicides. I think there would be one argument to say that we can diversify the portfolio more if we had an opportunity to add an insecticide or fungicide product to our portfolio. There is another argument to say that if we've got gaps in our current herbicide portfolio and the opportunity came to add herbicides to our portfolio then the execution risk on herbicides is a lot lower because it's something that we know well.

But as I said before Larry until we get some more details on the make-up of these portfolios, you know once the regulatory approvals are through, we just don't have that level of detail.

Larry Gandler - *Credit Suisse - Analyst*

Okay, so in terms of types of chemical there's no real preferences, benefits to going either way. Alright.

Greg Hunt - *Nufarm - MD and CEO*

No I think the lower risk option clearly is herbicides. It's something that we know well. We do have some gaps in our current portfolio. If the opportunity came to close those gaps you know we would certainly take it if we could.

Larry Gandler - *Credit Suisse - Analyst*

Okay, good. I guess a question for Paul as well, just on the FX losses Paul, I know we discussed perhaps working out another solution to hedging if there is such a solution so losses aren't that sizeable year-after-year. Any update on that?

Paul Binfield - *Nufarm - CFO*

Yes, I wish there were a silver bullet in terms of FX Larry. Essentially if you think through the primary drivers of those losses, it typically is a combination of the exposure and the currency volatility. But the main geographic area we have is LATAM, so Brazil and Argentina. Argentina has some very substantial exposures too.

What we have done to try and mitigate the exposure angle is to try and encourage growers to take invoicing in USD. We've been relatively successful both through I guess a natural desire of the grower to have USD invoicing simply because the volatility has been lower and the BRL has been stronger. But also products that we put into the market have encouraged growers to go for USD invoicing.

The other key thing is that what we've seen over the last six months has been a much more stable BRL because you've had a far more stable political environment and a stronger BRL. So both of those have contributed to the Brazilian picture.

Argentina has been less attractive I have to say in the sense of the ability to forecast. Argentina has been really problematic just because the season has been so weak and we've seen a situation where the currency has been more volatile and generally in a weakening trend. So in terms of that AUD6 million that you've seen, the majority -- well the vast majority is LATAM. Of that in fact the biggest chunk is Argentina.

Larry Gandler - *Credit Suisse - Analyst*

Oh that's interesting. Okay. Alright, I get it.

Paul Binfield - *Nufarm - CFO*

The really important thing that we have done though is we've put additional resources into LATAM in terms of foreign currency management. Those guys are doing a great job. They're coming up a pretty steep curve but we are making good progress. We feel that we are in much better control of the FX exposure particularly in Brazil. We're getting there in Argentina.

Larry Gandler - *Credit Suisse - Analyst*

Okay excellent, thanks Paul. Thanks guys.

Operator

Thank you. Your next question comes from [Pilan Jin] with Macquarie. Please go ahead.

Unidentified Participant

Hi good morning guys. Just a couple of questions from me. Firstly just on Europe. I know you have mentioned that the manufacturing efficiency restructuring program is mostly done but there are parts that are still going. So I'm just wondering if you're able to help us to understand or to quantify some of those benefits realized so far and targeted for the next little while.

Greg Hunt - *Nufarm - MD and CEO*

Yes Pilan in terms of Europe the primary drivers -- your primary projects around manufacturing efficiency come out of the closure of the Botlek plant. Then the manufacturing excellence projects in the two remaining large plants going on and [Lynch]. So we completed manufacturing excellence in [Whyte] a number of years ago. That project is complete. Those benefits are in the run rate.

The Botlek plant closed in April, May of last year. So essentially the benefits of that are in the run rate that you're seeing today. The manufacturing efficiency projects in the other two plants going on in Lynch again are well-progressed. So you shouldn't expect to see too much in the way of other significant manufacturing benefits coming from the European result in the second half.

Unidentified Participant

Got it, thank you. That's expected for the full year is it?

Greg Hunt - *Nufarm - MD and CEO*

Sorry?

Unidentified Participant

In terms of the manufacturing efficiencies, the benefits from that, did you say that we do expect a fair bit of realization in the full year?

Greg Hunt - *Nufarm - MD and CEO*

No, I'm saying that basically what you've seen in the first half is largely complete. In the second half there will be a minimal improvement.

Unidentified Participant

Got it. Got it. Thank you. Just the second question, just in terms of the M&A, in terms of potential future acquisitions do we have a return target? I understand we've got a 16% ROFE target for internal initiatives. But I'm just trying to understand if we have a similar type of target for potential future acquisitions.

Greg Hunt - *Nufarm - MD and CEO*

Yes, absolutely Pilan, but essentially all of the M&A opportunities will be run through financial screens. In terms of our focus or typically use -- just add an NPV model -- and the discount rates that we apply to those will reflect the risk that we see associated with those products in those particular geographies.

So obviously if the product is going into a -- you know, into LATAM -- predominantly LATAM will be a higher discounted rate than will be going into Europe. Similarly if you're an insecticide or a fungicide will have a higher discount rate than if it were a herbicide. So we absolutely use our financial (inaudible) applied to all of these. We flex them dependent on the nature of the asset that we're looking to acquire.

Unidentified Participant

Got it. Thank you so much. That's it from me.

Operator

Thank you. Your next question comes from Paul Jensz with PAC Partners. Please go ahead.

Paul Jensz - *PAC Partners - Analyst*

Can you hear us okay Greg?

Greg Hunt - *Nufarm - MD and CEO*

Yes we can. Thank you Paul.

Paul Jensz - *PAC Partners - Analyst*

Excellent. Just two quick questions. First is just following on from the Weekly Times, talking about there's a problem with some contaminated herbicides. Are you able to clarify that situation please?

Greg Hunt - *Nufarm - MD and CEO*

Well we became aware of the contamination issue last -- I think it was in November. There was a limited number of batches of a product called Ramrod that's manufactured by a third party. Once we became aware of it -- there's a normal industry protocol in terms of recall -- we informed and have been working with the APBMA. We implemented a recall of all the affected batches.

We've been working with resellers, our channel partners and growers that were affected. Where there have been some losses we're assessing that on a case by case basis, and independent loss adjustor has been appointed. There have been no new reports of any damage since I think about the middle of January.

Paul Jensz - *PAC Partners - Analyst*

So you don't see it as being a major, I suppose, problem from an balance sheet point of view or an earnings point of view from this point because you were quite proactive at the start?

Greg Hunt - *Nufarm - MD and CEO*

No, we don't see it as being significant.

Paul Jensz - *PAC Partners - Analyst*

Okay, it just made the front page of the Weekly Times.

Greg Hunt - *Nufarm - MD and CEO*

I haven't seen it.

Paul Jensz - *PAC Partners - Analyst*

The final question is just on revisiting the CapEx for the seeds if I can which Brent might want to touch base on. Just working it through as to how you look at the returns on that CapEx because obviously we are spending over the last five years quite a large sum. The seeds division has had a lot of money spent on it in the last five years as well when you built it up. So I'm just wondering I suppose what extra number we put on top of that because it is a higher risk growth profile.

Paul Binfield - *Nufarm - CFO*

Paul thanks for that. If I can sort of just kick off and then let Brent give them some seeds (inaudible). All of the R&D spend, so whether it be for crop protection or for seeds, going through the same return process and prioritization. So we recognize we've got a limited pool of capital. We basically allocate that capital based to those projects that give us the best potential return.

If you look at seeds over the last two or three years in particular probably for the next year or so, the most significant project by far has been Omega-3. It's absolutely been a higher risk project. Obviously we are significantly de-risking it now as we're working towards commercialization. Therefore the discount rates associated with that and our return requirements associated with that have been that much higher.

So again in terms of assessing all of the R&D projects, same comments I made to Pilan previously. We use the same NPV model and we will basically use discount rates that reflect the risk that we see associated with those particular activities.

Brent, do you want to add a few words?

Brent Zacharias - *Nufarm - Group Executive, Nuseed*

Yes, maybe just a couple of things to add to that. Also in the seed and biotech industry you are working with longer time horizons as well. So the investments you see, you are looking at anywhere from five to 10 years at times in terms of the investments you're making to gain those returns. So exactly as Paul has said we adjust the return expectation project by project but also recognizing that you are looking at those longer time horizons.

So I think when you look at our total spend and the expectation that comes out of it, you do need to see that premium return over time which we typically do see in our industry. We just have them at a -- as Paul said -- at a higher invest stage of our development over these last two, three, four years.

Paul Jensz - *PAC Partners - Analyst*

Just again if you could remind us of the total capital there, just looking through we used to get a bit of a fix I think on a full year basis but maybe you're not there at the half year. Because it looks like there's around AUD400 million or so invested in the seeds. Is that around the number?

Paul Binfield - *Nufarm - CFO*

No, I think the number Paul is probably closer to around the AUD250 million mark.

Paul Jensz - *PAC Partners - Analyst*

Okay, and we would be adding the, I suppose the CapEx for the next three or four years. So we could get it up to AUD400 million or so.

Paul Binfield - *Nufarm - CFO*

No, nothing like that. We're talking about CapEx in the seeds business being sub AUD20 million.

Paul Jensz - *PAC Partners - Analyst*

Okay, alright. We'll work with that. Thank you very much.

Paul Binfield - *Nufarm - CFO*

Thanks Paul.

Operator

Thank you. There are no further questions at this time. We'll hand back to Mr Keating for closing remarks.

Mark Keating - *Nufarm - GM Investor Relations*

Thank you Bethany. Thanks everybody for joining us this morning. Over the next few days and weeks we'll meet out with a number of investors and we'll take further questions and continue the discussions on the results. Again, thanks for joining us this morning. We look forward to seeing you in the coming weeks. Thanks everybody.