Managing Director's Address
Annual General Meeting of Shareholders - Melbourne
Thursday, December 6, 2018 at 10.00 am

Greg Hunt

Thank you, Chairman. I would also like to extend my welcome to you all.

Today I'll briefly review the 2018 performance of the business, as well as updating you on trading conditions so far in the 2019 financial year.

Let me start with a few comments about safety.

In the past year we have continued to make improvements to our safety performance. Our records show our injury rates are at the lowest levels ever. Globally, we are now on a par with the best performing companies in our sector. Ten of our 12 global manufacturing sites were injury free during the year.

We cannot, however, afford to be complacent. We are committed to continuing to invest in our safety programs and safety related plant improvements to help ensure our people go home safely every day and we will continue to report on our progress.

The Chairman has noted that the 2018 financial year was not without its challenges. The severe drought conditions in parts of Australia had a significant impact on our business. We also experienced drought conditions in parts of Central and Northern Europe. I would like to reinforce the Chairman's comments that – despite those challenges – Nufarm is a fundamentally better and stronger business today than we were 12 months ago. Our geographic diversification and focus on performance improvement over the past three years means we are well placed to navigate the extreme conditions we have faced in some regions this year.

We continue to generate above industry level revenue growth; we have delivered market share gains in most of our key regional markets; and we have invested in multiple growth platforms that will help drive improved earnings over the long term.

Our product development and portfolio management is more focused on delivering better solutions for our customers. We have sharpened our strategic allocation of capital and reduced the complexity of our product range, and I believe our portfolio and pipeline has never been in better shape.

We've also increased the efficiency of our manufacturing and supply chain functions and are progressing with productivity improvements in our back-office and administration. While the benefits of our back-office projects may be realised later than we expected, they are fundamental to the ongoing transformation of the company.

Our strategy remains on track – we are building our capabilities and market positions in those crops and markets where Nufarm can be most successful.

I'll now briefly recap on the headline results for 2018.

Group revenues were up 6% to $3.3 billion. Underlying EBITDA was $386 million, which was largely in line with the prior year. Underlying net profit after tax was $98 million.

We reported material items totalling $114 million. $92 million of this was related to the impairment of the Australian business. Our statutory net profit was therefore a loss of $16 million.

Management is continuing to focus on working capital. We were disappointed to finish the year with the average net working capital to sales ratio slightly above our target of 40%. Our target is to drive this ratio down to 35% to 37% in the medium term.

Higher levels of working capital were largely a result of our Australian inventory, which was high due to the poor selling season – as well as the later than normal sales in Europe due to the delayed season.

The increase in working capital pushed our debt levels higher. With continued uncertainty around the return to normal seasonal conditions in Australia, and deteriorating seasonal conditions in Europe, the Board supported management’s recommendation to raise capital. Our goal was to strengthen the balance sheet and we believe it was a decisive and prudent action to take.

We remain on course to meet our medium-term average net debt target of two-times EBITDA.

While the severe drought conditions in Eastern Australia impacted our overall financial performance, it is worth highlighting that other business units performed strongly this year.

We grew revenues and underlying profit in both North America and South America, which were our two largest regional markets by revenue. Over the past three years, sales from the USA and Brazil have grown by more than 30% on a local currency basis. This has been achieved against a background of very low growth in the industry overall.

Despite very dry conditions in parts of Europe, our European business also posted growth, aided by strong early sales from our newly acquired product portfolios.

Our performance in these three important global markets underlines the fact that Nufarm is becoming more relevant and securing stronger customer support around the world. And we have a broad product portfolio and a deep pipeline of new product developments to support additional future growth.

Our Seed Technologies business generated 10% revenue growth in 2018. Profitability was, however, impacted by regulatory changes that phased-out the use of neonicotinoid-based seed treatment products in France. That impact aside, the seeds business performed well, with Nuseed growing market share in all regional markets.

We also made good progress on our world-leading Omega-3 canola program. Australian regulators approved Omega-3 canola production and use in feed and human consumption. And subsequent to year end, the United States Department of Agriculture approved Omega-3 canola for cultivation in the United States.

Nuseed successfully contracted, planted, and harvested 15,000 acres of Omega-3 canola under the USDA notification process. This has helped validate the Company's closed-loop business model, supply chain and stewardship protocols.

Trials utilising Nuseed's Omega-3 canola oil, which is branded as Aquaterra, were commenced at downstream aquaculture companies in Chile. Initial feedback from the trials confirms Aquaterra as a ‘drop-in’ solution with positive feed conversion and fish growth rates, and ease of use for feed manufacturing.

Regulatory submissions in the US and Canada are proceeding to plan, and US approvals are anticipated prior to the 2019 North American summer cropping season. This will allow us to proceed to commercialisation of this world-first source of omega-3 in this current financial year.

The omega-3 canola opportunity is one of a number of 'Beyond Yield' innovations being developed within our seeds business. It will be an important source of profitable growth for the company, along with other growth platforms we have in place across our crop protection business.

Nufarm has a strong product portfolio, stronger than we have ever had in the past. We have a number of innovative new product launches scheduled over coming years. We are strengthening our customer offer through our strategic partnership with Sumitomo Chemical and new distribution and marketing arrangements with other industry partners. Sales of Sumitomo products through the Nufarm platform have grown at a compound annual growth rate of 37% since 2014. And we have signed new collaboration and distribution agreements with Sumitomo to cover several new proprietary products that are scheduled to be launched in the early 2020's.

I'd now like to speak briefly about the outlook for the current financial year.

Our overall growth expectations for 2019 assume a partial earnings recovery here in Australia.

The 2018 Australian winter crop production is expected to be about 20% below the 20-year average production, and 23% down on last year. It is, however, a tale of two sides of the country, with the drought-affected Eastern States forecast to produce harvests about 40% below that average. Western Australia, which had a much stronger season, is expected to come in at 12% above the average.

For our first half in Australia, we rely on opportunities tied to summer cropping activity. Current forecasts have summer crop plantings down by some 20% on the prior year. This is limiting our selling opportunities. Given an extended period of low demand due to the dry conditions, channel inventory levels are higher than normal. This impacts on our level of manufacturing activity and overhead recoveries. For the first quarter of the year, regional sales are slightly down on the corresponding period last year.

In North America, the strong momentum we generated in financial year 2018 has continued into the first quarter, with sales ahead of the same period last year.

While on North America, many shareholders will be aware of the California court case involving damages awarded against Monsanto, the manufacturer of glyphosate, the active ingredient in 'Roundup'. That case is still the subject of appeal; however I'd like to make a few comments about glyphosate, given it's an important component of many formulations in our herbicide portfolio.

Like all crop protection products marketed by Nufarm, glyphosate is subject to a rigorous and independent regulatory review process before being approved for use in agriculture. It is important to note that respected authorities like the United States Environmental Protection Agency, the European Food Safety Authority, the National Institute of Health, and the APVMA here in Australia have all assessed glyphosate and determined that it can be used safely.

Those assessments are supported by more than 800 scientific studies and reviews over 40 years which also substantiate the safety of the product.

A major study that has investigated the risk between glyphosate exposure and non-Hodgkin lymphoma is the US government's Agricultural Health Study. This is the largest ever study of agricultural workers, and it analysed data from approximately 89,000 farm workers and their families. It found there was no association between glyphosate and lymphoma – regardless of the exposure level.

This study was not included the 2015 IARC assessment that has generated so much of the current community debate.

Nufarm will continue to rely on the scientific evidence. We strongly support the integrity of the independent regulatory process and we are committed to promoting the safe use of all our products.

Moving on to Latin America, our first quarter performance is also tracking ahead of last year. Brazil is a key driver of first half performance, given the major selling season occurs in the early part of the financial year. We expect to benefit from increased soy plantings and stronger terms of trade for Brazilian farmers.

We are supporting growth in the Americas with an expanded manufacturing presence. New production facilities in both the US and Brazil will help drive future growth and provide important efficiencies in logistics. They will also improve the service we can offer key customers in those markets.

Central and Northern Europe were in partial drought over their summer. Dry conditions have continued, and we have seen a delayed autumn season and inventory levels that are higher than normal at this time of the year. We are also closely monitoring the impact of a Government enforced shutdown of a plant operated by our Chinese supplier of prochloraz, one of the fungicide products acquired as part of the new portfolio from Adama. This is an evolving situation that we are actively managing.

Despite these challenges, we are focused on delivering our full year targets for the newly acquired product portfolios. The new products give Nufarm increased scale and stronger channel partner relationships. I'm very pleased with how well we have executed on integration plans. We will be in a strong position to capitalise if seasonal conditions improve for the major selling period in the second half.

We expect first half Group EBITDA to be similar to that generated in the first half of FY18. At an EBIT level, earnings are likely to be below the FY18 first half. This is because the increased amortization associated with the European acquisitions will more than offset the first half earnings contribution from those portfolios, which – as I said – are weighted to the second half of the year.

Net working capital at the half is always higher than year end as we are in the middle of the season in Latin America and we are building inventories for the northern hemisphere summer season. This pattern will be exacerbated this half year by excess inventory in Australia due to the continuing drought. The strong start to the Latin American season will also drive receivables higher.

Our group outlook for the 2019 full year is for substantial earnings growth. Assuming average seasonal conditions for the major selling periods in our key markets, we expect underlying EBITDA to be in a range of $500 million to $530 million. This is well up on the $386 million EBITDA generated in 2018.

While we expect average net working capital over sales to be around 40% for the full year, we are expecting net working capital at year end to be at a similar level to the prior year in spite of the substantial growth we are expecting.

Broader market conditions are expected to remain somewhat challenging, with soft commodity prices remaining low and price competition strong. We have demonstrated, however, that the Nufarm business model can generate consistent growth in a challenging industry environment.

Looking further ahead, we are confident that the changes and improvements we have made to the business and the growth platforms we have developed will continue to generate increased value for shareholders.

Before handing back to the Chairman, I would like to acknowledge the contribution and effort of Nufarm employees around the world. The past several years have seen significant change, with new processes and systems, and a renewed strategic focus. The gains we have made would not be possible without the strong engagement of our people…and I thank them for their commitment to the business.

I would also like to thank Directors for their continued support and counsel. As a management team, we very much appreciate the collaborative approach taken by our Board.

Finally, I would like to express my appreciation to you, our shareholders, for your ongoing interest and support. I am very positive about the future opportunities for this company and I look forward to delivering profitable growth over the next few years.

Thank you.