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Operator: Ladies and gentlemen, thank you for standing by and welcome to the Nufarm Annual Results Briefing 2019 conference call. At this time, all participants are in a listen only mode. After the speakers' presentation, there will be a question and answer session. To ask a question during the session you will need to press star one on your telephone. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Ms Nerida Mossop. Thank you, please go ahead.

Nerida Mossop: Thank you and welcome to everyone joining us on the call today. Earlier this morning we released our full year results to the ASX along with an announcement regarding our intention to divest our South American operation. A copy of these materials is available on our website.

Before we start, please let me draw your attention to the disclaimer, particularly the section on the forward-looking statements and the non-IFRS information.

Participating in the call today are Nufarm Managing Director and CEO Greg Hunt, CFO Paul Binfield and Group Executive for Nuseed Brent Zacharias.

After the presentation, we will be happy to take questions and at that point we'll hand back to the moderator to introduce the process. I'll hand you over to Greg.

Greg Hunt: Thanks, Nerida, and I add my welcome to everyone on the call as well.

Today we've announced a transaction that will transform Nufarm. The sale of our South American business to Sumitomo for just under $1.2 billion or 12.3 times FY19 EBITDA offers compelling upfront value for shareholders. It resets the business to deliver stronger future returns for shareholders. It will allow us to focus our efforts and resources in the regions and businesses where we believe that we can drive higher margins and better cash flow. We will have a stronger business with a diversified earnings base and a simplified financing structure and a stronger earnings outlook.

Our remaining businesses will be focused on the major agricultural markets in Europe, North America and the Asia Pacific as well as the high margin fast growing seed and omega-3 business. We have made considerable investments in these businesses in the past few years and there is significant near-term value and longer-term growth to be realised.

The proceeds from the sale will deleverage our balance sheet and reduce our average net working capital requirements by around $500 million. It will reset our business to manage the inherent volatility of our industry and give us the increased flexibility to consider capital management initiatives.

Looking at the terms of the agreement itself, you can see on this slide that it includes our businesses in Brazil, Argentina, Colombia and Chile. We've been careful to point out that it excludes the Nuseed assets but it does include the seed treatment assets for this region, which include a range of Sumitomo proprietary products.

The transaction also strengthens and extends our commercial relationship with Sumitomo. This relationship has been an important contributor to our growth in the past five years and today's agreement extends the term of our existing agreements and importantly, provides new opportunities to build on our expanding portfolio in Europe as the preferred partner for distribution of two of Sumitomo's new proprietary fungicides in Germany, Poland and the UK. We see this as another very important growth platform.

Subject to the review by the competition regulatory authorities, we will also be providing procurement services to Sumitomo for the South American business including supply of some of our own products. This will allow us to maintain our global volumes for the benefits of both companies.

The transaction is subject to regulatory and shareholder approval and an independent expert has been retained to provide an opinion on the fairness and reasonableness of the proposal. We are targeting December for the shareholder vote and if all approvals are obtained, the transaction could be completed by the end of our first half of our financial year.

Turning now to the value for shareholders, this transaction represents an attractive multiple of 10 times FY19 underlying EBITDA. However, when you take into account the full costs of doing business in South America, which includes the cost of extended customer financing terms and foreign exchange hedging the implied multiple is even more compelling at 12.3 times.

In addition to the upfront value we believe that this transaction will reset our business and deliver ongoing value to shareholders. The benefits of the strong balance sheet and simplified capital structure on our financing costs will be significant. Our ability to generate cash returns will also be improved. While we have successfully grown and stabilised earnings in South America, it has not contributed positive free cash flow to the

Group over the past five years. We know that the next phase of growth for this business will require significant investment in working capital and we believe that redeploying our capital to other regions will generate better returns for our shareholders.

I'd like to spend a little bit of time explaining that last point. Latin America is the second largest crop protection market in the world as measured by sales in US dollars. It is second only to Asia and followed closely by Europe and North America. What I want to draw your attention to is the unique characteristics of this market that impact our ability to generate good cash returns. Extended credit terms, increasing competition and the costs of managing currency volatility are factors that all market participants deal with in this region and that is generally over time reflected in the EBITDA margins on offer.

We have had great success in this market in building a strong distribution network and a loyal customer base. We have grown and stabilised earnings, however, we have not delivered cash returns. We have provided some charts on this slide to demonstrate how significant the financing costs, including the overall levels of net working capital are relative to the EBITDA that we generate. I should also reinforce that this issue is unique to the South American market because it is directly tied to the extended credit terms and currency volatility. Our other geographical markets do not have this profile.

When we consider the next phase of growth for our South American business, a large portion relates to the growth we expect to deliver from proprietary Sumitomo products. While Nufarm funds the growth in working capital, including the interest and FX costs, we have a distribution agreement which involves us sharing the margin with Sumitomo as the inventor of the products.

It is our view that Sumitomo as the owner of the intellectual property is therefore able to access the full cash margin from the sales and is better positioned to generate acceptable cash returns from this next phase of growth. Sumitomo is therefore able to offer a very attractive price for the business while still being confident of extracting value for their own shareholders.

Turning now to look at the impact of the proposed divestment on the profile of our business. You can see that it will continue to have a diversified product portfolio and of course, geographic diversification will change. It nonetheless provides a balanced exposure across multiple markets. The divestment will also simplify our capital structure and significantly reduce our financing costs and foreign exchange exposure. On a pro forma basis we expect to save around $60 million to $70 million in financing costs. We will

also review opportunities to reduce our corporate costs following completion of the transaction.

Looking at the quality and the growth opportunities in the remaining businesses, there are significant opportunities to deliver improved returns in the short to medium-term and the longer-term.

As I mentioned earlier, we have made considerable investment in these businesses over the past few years and we are now entering a phase of lower investment. The acquisitions we made in Europe have transformed our presence in that market. As many of you would be aware, we had issues during the integration of the portfolios and unforeseen supply constraints from China also impacted earnings this year. Notwithstanding this, these are good high margin products that generate good cash flow.

We have also strengthened our management and commercial teams and there is near-term upside from resolution of the supply issues that impacted earnings in financial year 2019.

In addition, today's agreement with Sumitomo provides us with further opportunities to expand our portfolio as preferred partner for two of their promising new fungicide products. In North America we have a well-diversified and resilient business that is growing quickly. We have a leading market share in the US turf and ornamental markets and increasing market share in the US and Canada crop protection segments. We are ready to commission a new formulation facility in Grenville, Mississippi in October and this will help drive further growth in the important cropping regions in the south-east.

In the Asia Pacific we are the longstanding market leader in Australia and we have a strong footprint in New Zealand and Indonesia. The true value of our Australian business could be easy to overlook given the market conditions over the past two years. This is a good business that has been operating in a very tough market. Just two years ago, it was generating EBITDA three times what it delivered this year. We know the business and we know the industry very well and we are confident earnings will rebound when weather conditions improve. We have also done a lot of hard work on our cost base and this will deliver improved performance even if we don't see an improvement in conditions this year.

Our seed technologies business includes seed treatment and the Nuseed business. This is a fast-growing high margin business. We have the Group Executive for Nuseed Brent Zacharias on the line and I'll let him give you a quick overview of this business and the outlook.

Thanks, Brent.

Brent Zacharias: Thanks, Greg.

The focus of the Nuseed is developing unique plant output traits that deliver specific customer and consumer benefits beyond crop yield, such as our proprietary omega-3 canola.

Our focus is on three crops, sunflower, sorghum and canola. We have customers in over 30 countries and we're growing market share in each of our regions with record sales and EBITDA in 2019. We have launched products into several new categories and we expect these to drive more growth in the coming years. The addition of the Trunemco seed treatment portfolio in 2019 is also expected to generate first sales in 2020 and this will ramp up further in 2021 and beyond.

Omega-3 canola is a very near-term value driver for us and we are on the cusp of commercialisation. The first commercial crop involving a total of 35,000 acres was planted in the US and is currently being harvested. Our first target market for the canola oil is aquaculture and we've completed what we believe is the largest ever pre-commercial fish feeding trial for a new aquaculture ingredient. It involved more than one million fish and several of the world's leading aquaculture firms.

The trial results generated a vast proprietary database. The initial data and analysis confirms earlier independent findings from Nofima that production metrics such as growth, feed conversion and mortality are competitive with fish oil. The data also validates all the enhancements in the ultimate consumer products and the performance and fit of AquaTerra for customers' existing feed manufacturing and fish farm systems on a large scale.

We've had positive initiative discussions with large potential customers and we're targeting first commercial sales in the new year. We have already demonstrated the ability to conduct oil exports into our initial target market in Chile in 2019. Our US FDA approval for food and seed is progressing well but still pending.

As additional insight, we have had very positive interactions with the FDA. It is taking a bit longer than anticipated but we understand it is simply due to workload and priorities with the agency. We have no concerns and expect approval soon. The US FDA approval will allow us to also sell the canola meal which is the by-product of the crushing into US feed markets and support the next phase of development for our oil products into US food

ingredients and nutriceuticals.

Additional progress made in our Canadian, European, China, Japan and South Korean regulatory applications has been very significant. We will also be launching our next generation varieties of omega-3 canola with substantially improved agronomic performance for planting in 2020, providing further scale and cost advantages as we seek to ramp up production and earnings in the coming years.

We're very excited to now bring this new product to market. I'll be very happy to take questions at the end of the presentation and I'll now hand back to Greg.

Greg Hunt: Thanks, Brent. There's obviously a lot of growth to come through from our seed technologies business in the near-term.

Just turning to slide 11, our relationship with Sumitomo will also continue to provide growth in the coming years. This partnership provides us with access to their proprietary portfolio and has delivered value for them and for us for many years. Sumitomo is also a major shareholder in Nufarm and we look forward to continuing our relationship with them on that level as well.

Slide 12, turning to the balance sheet. Cash proceeds of approximately $1.2 billion will reset Nufarm's financial position. Our leverage will reduce from three times to less than one times on a pro forma basis and we are targeting a core leverage ratio of one to 1.5 times over the medium term.

The Board is conscious of the need to find the right balance between maintaining a strong financial footing that provides insurance against seasonal and market swings ensuring that we meet the funding needs of the business as it grows. Our focus on generating cash and improving our working capital efficiency will not be diminished by this transaction. It will be enhanced and we believe the Board will be provided with greater opportunity for capital management initiatives that return value to shareholders.

Turning now to the FY19 results so slide 13, we have provided our customary materials here but in the interest of ensuring that we leave sufficient time for Q&A, I don't intend to spend the usual amount of time on each slide. Paul and I will be very happy to take questions at the end of the presentation and there is also additional information provided in the other materials that were lodged with the ASX today that you can refer to.

To slide 14, 2019 was a difficult time for the agricultural industry. We've seen a second year of extreme drought in conditions in large parts of Australia and in the US, there have

been unprecedented floods in the mid-west. On the commercial front, global trade instability has impacted behaviour and supply disruptions as China lifts its environmental and safety standards, have continued to be a feature of our industry.

Against this difficult backdrop we've delivered a steady performance. Underlying EBITDA was up 9% and we met our revised guidance target of $420 million. Although this is a credible performance given the external conditions, it was below our expectations and what we know that this business is capable of delivering. Reported net profit was up $48 million on the prior year and while we didn't meet the target that we set for our net working capital unwind, we did reduce our debt by 9%.

While it's not fully evident in the 2019 financial results, we've done a lot of work to strengthen our business during the year. We've made very good progress on the performance improvement program in Australia and in fact, we've accelerated the time of delivering the target earnings benefits of $10 million to $15 million. We expect to achieve that target range in the 2020 financial year instead of the original target of March 2021.

We have also largely addressed the significant inventory overhang that we started at the last financial year and this has significantly improved our net working capital. We have completed the integration of the portfolios that we acquired in Europe last year and whilst there is still some issues to deal with, this acquisition has transformed our market presence and will continue to deliver earnings improvement in financial year 2020.

The equity raising in the first half of the year strengthened our financial position. We've made early progress on deleveraging the balance sheet and there is a clear path to return to our targeted net working capital. Improved cash flow generation is a critical component of our FY20 plans and Paul will talk about this more later.

We've also dedicated considerable effort to making sure safety remains our number one priority across all of our sites.

Looking at Europe first on slide 15, obviously we were disappointed with the earnings outcome from the acquisitions. They contributed $75 million EBITDA against our business case of $110 million to $115 million. This was a combination of product availability issues relating to the transfer of the business from the original owners and of course, the tight supply conditions in China with the latter impacting the industry more broadly and not just ourselves.

We've addressed the issues that related to the transition and while we expect some

continued impact on supply with elevated costs for some technical ingredients in financial year 2020, we don't believe that these are long-term impacts and the full business case for the acquisition will ultimately be achieved.

We also experienced cost pressures in the remainder of the business with some of these relating to raw material costs in our manufacturing business. We are working to deliver value from the new ERP systems that we've installed and we have also recently strengthened our management and commercial teams in Europe. It's been a very difficult period of significant change for the region but we believe we are building a much stronger business and we'll be operating from a firmer footing in financial year 2020.

To North America, North America delivered an exceptional result against an incredibly difficult backdrop. The impact of the extreme flooding in the mid-west and the dry conditions in Canada was offset by a very strong first half performance from our turf and ornamental business and the support from new and existing customers. The earnings lift of 8% in these conditions is an absolute credit to the team and a performance that many of our global peers, who were dealing with the same conditions, would credit highly.

In Australia, we were dealing with continued drought and we have made some tough decisions to address the inventory build resulting from some of the toughest conditions that farmers have seen here in parts of the east coast. The temporary closure of our manufacturing plants was unprecedented. It resulted in unrecovered overhead costs being incurred. However, we were able to reduce our inventory balances by around $100 million and we have started this current financial year in a much better position than we did at the same time last year.

We also made very good progress on our performance improvement program and in fact, as I said earlier, we are forecasting that we will deliver the targeted improvements of $10 million to $15 million ahead of schedule.

In Asia, slide 18, another good year for Asia with earnings up despite the drought in our main market of Indonesia. We grew share in this market and also benefited from a full year contribution from our China joint venture and modest growth in each of our other countries.

In seed technologies, this area was another highlight, we're seeing good growth from new product launches with particularly strong growth in sunflower sales in Europe and Latin America and sorghum sales in Latin and North America. Seed treatment sales in Latin America were also strong and this part of the business is proposed for divestment to

Sumitomo. We have a similar size seed treatment portfolio in North America and that is obviously not being divested.

In the Latin American crop protection business we saw very strong volume and revenue growth but no lessening of the competition that is becoming an increasing feature of this market. An increase in sales volumes and improved product mixed combined to offset the margin pressure with earnings flat on the prior year.

I'll now hand over to Paul to take you through some more detail of the financials and the balance sheet. Thanks, Paul.

Paul Binfield: Thanks, Greg.

We delivered on our revised EBITDA guidance of $420 million with a full year contribution from European acquisitions and strong performance in North America, seed technologies and Asia driving growth of 9% on the prior year. Revenues were up in all regions except ANZ which was impacted by continued drought conditions.

Margins were impacted by increased competition in Latin America. Cost pressure in Europe due to supply disruptions and pricing pressure in North America with flooding in the US south and mid-west, dry conditions in western Canada and the high channel inventories all resulted in aggressive industry pricing.

Underlying EBIT declined 6% on the prior year to $249 million with a full year amortisation for the acquired portfolios included in this year's result. Reported NPAT includes $51 million of material items. $21 million of these relates to unrecovered overheads incurred due to the unprecedented temporary closure of manufacturing lines in Australia. The remainder relates to business restructuring costs in Australia to deliver the profit improvement program and in Europe, to complete the integration of the acquired portfolios. Legal costs relating to action brought in the US to enforce the omega-3 canola patent estate are also included in the total.

We finished the year with average net working capital to sales at 46.8% which missed our target and I'll speak to this on the following slide.

Moving to net debt and financing costs, with the support of shareholders through capital raising in the first half we were able to reduce net debt by 9% on the prior year. This represents leverage of three times which is equivalent of the pro forma leverage of the prior year. The net debt balance of $1.2 billion excludes proceeds from the preference shares issued to Sumitomo on 31 July, which were received on 2 August. Once these

proceeds are included leverage is reduced to 2.7 times and net debt is $224 million lower than the prior year.

Underlying net financing costs were in line with the prior year with higher interest costs offset by lower foreign exchange costs. The increase in interest costs was consistent with higher net debt levels following a full year of funding for the European acquisitions and higher levels of net working capital.

FX costs in Latin America of $15 million were offset by gains from the other regions.

Looking at net working capital, the inventory balance was $1.48 billion which was higher than the target we set ourselves, a range of $1.3 billion to $1.4 billion. This was mostly due to short-term weather-related headwinds. Sales in North America were lower and later than planned with flooding in the US south and mid-west. European sales were also lower and later than planned. The currency in Brazil has got off to a strong start and this has also contributed to higher receivables at year-end.

Working capital is the main driver of cash generation in our business. Improved cash generation is a very important focus for us and hence the criticality of strengthening our net working capital management. We use average net working capital to sales to measure efficiency and this ratio increased almost 47% in FY19, which is well above the target range but this does provide us with a great opportunity for us in FY20 to free up operating cash flow as we work this balance down.

Whilst net working capital at year-end is higher than last year, we do start this financial year in a far better position than last year. The increase is all in receivables and a lot of this reflects short-term headwinds. DSO is lower than this time last year as is stock cover. Furthermore, we have had good collections in August and September.

You can see from the chart that our inventory levels at year-end were much the same as last year even though we're supporting much higher sales. The primary driver here behind this improvement is Australia, which despite the continuing drought conditions we've reduced inventory by more than $100 million over the course of the year, having taken the tough decision earlier in the year to temporarily close the formulation plants.

We are also very focused on structural improvement to business processes that will further improve our working capital efficiency. Australia has made very good improvements and there's still more that we can achieve there and we also believe that we can make significant gains over the next 12 months in Europe and North America.

Turning to operating cash flow, the improvements in working capital performance relative to last year is reflecting in our cash flow. Our net operating cash flow is almost $190 million better than last year. We moved from an outflow of nearly $90 million last year to an inflow of nearly $100 million this year, largely due to progress on net working capital.

As I mentioned earlier, generating cash is a priority and we're targeting further improvement in 2020. The main drivers of improved cash generation will be increased earnings, working capital improvement and reduction in capital expenditure. We have raised the profile and importance of working capital management across the organisation over the last 12 months and this will continue.

This year, we're changing our management and employee incentives to make sure our people are assessed on cash flow metrics that relate more specifically to their role and that they can directly influence. We think we can get back towards the 40% mark for average net working capital for sales this time next year and our longer-term target is to get back to a range of 35% to 37%.

CapEx will also be lower in FY20. The high levels of spend on omega-3 and the rollout of the new IT platform in Europe are over. The build of the new plant in Greenville has progressed well albeit a little delayed by the inclement weather. The last $20 million of the spend of this project will fall in the FY20 cash flow but even in spite of that, we expect CapEx for the current year to be approximately $150 million, $25 million below FY19.

I'll hand back to Greg to take you through the outlook.

Greg Hunt: Thanks, Paul.

We're referring now to slide 26. Clearly with the announcement of the proposed divestment today, I can say we've had quite an eventful start to this year. However, I want to stress that our focus for 2020 is simple and we're determined that we won't be distracted from our priorities and that is to keep our people safe, improve margins and to generate cash. These are the things that are important to us and they're the things obviously that will drive value for shareholders.

The slide here sets out some parameters on guidance so that you can get a sense of how we see the year unfolding from a financial perspective. It's obviously a little more complex this year given the proposed divestment but you will quickly see that we are forecasting good growth in earnings from the businesses that we retain and we'll be working very hard to ensure that it is also reflected in improved cash generation.

In closing, I'd like to recap the opportunity before us today. We've delivered a proposal for the consideration of shareholders that we believe will deliver superior upfront value for our South American business. This transaction will reset Nufarm. We will have a stronger business with our capital weighted to higher margin regions that can generate stronger cash flows. We will have a simplified capital structure and generate significant savings on financing costs. Our remaining businesses are strong and after a period of investment, they are poised to deliver improved returns for our shareholders.

I'm sure there'll be some more questions and I look forward to speaking with many of you over the coming days and in the lead up to the shareholder vote. I'll now hand over to the operator and we'll take some questions.

Operator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question today please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request at any time please press the pound or hash key.

Your first question comes from the line of Daniel Kang from Citi. Please go ahead.

Daniel Kang: (Citi, Analyst) Good morning everyone. Just a couple of questions from me. On the ANZ business, I thought the performance was quite impressive in the second half given the drought conditions. Can you talk through the drivers of the second half performance? To what extent was it driven by the performance improvement program? That's the first one.

The second one is on corporate costs. Do you expect the sale of the South American business to help lower the annualised $50 million to $55 million corporate cost expense level?

Just finally on omega-3, to what extent do you expect the US FDA approval to impact the commercialisation process and can you give some idea of the magnitude of EBITDA contribution in FY21? I know you've given guidance for FY27 on a percentage share of the market but if you can give some guidance on FY21 contribution that would be great.

Greg Hunt: Why don't I make some comments around Australia and then hand to Brent on the omega-3 and then Paul for the corporate costs.

Australia is always a second half business. We haven't had a summer crop really for the last two or three years and the way that things are looking at the moment, it's highly unlikely that we will this year as well. If you look at the last couple of years, the market is

down about 20% to 25% because of the drought.

To some degree I think we've forgotten that there is underlying value in this business. Two years ago it delivered $65 million of EBITDA and the drought's impacted sales by $150 million to $200 million. If we look at what the business has delivered in terms of sales over the last 10 years, it's been consistently in that $550 million to $650 million range. I see no reason why it won't bounce back to those levels. We simply need a good season to go with us and then we are very confident of delivering the $10 million to $15 million from the transformation program.

The journey that we've been on in the last three or four years is all about getting that business back to the run rate, $50 million to $60 million EBIT run rate that we believe that that business can do.

Brent, did you want to make some comments in relation to the questions on omega-3?

Brent Zacharias: Yes, sure. Thanks for the question, Daniel.

First of all, the first part of your question I think was impact to commercialisation from FDA approval. I should probably make it clear that while the FDA approval is another significant step in our regulatory process, it really is not required for us to be able to commercialise our products this year. We're able to harvest the crop that we have, we can crush the crop like we did last year and able to export the oil into our target export markets, particularly to Chile.

What it does provide to us, as I touched on in my comments earlier, is it would allow us to sell the by-product, the meal into the US markets. That's really more about the crush economics but the timing of the FDA approval won't slow us down in terms of our ability to commercialise and start to supply downstream customers with oil.

The second part of your question was some guidance on the magnitude of the positive EBITDA guidance that we've given for FY21. Given that we're just right now completing our first commercial harvest and still completing commercial discussions, we probably can't provide you much more guidance on that just right at this time other than to say we're quite confident that it will be a positive EBITDA contributor in FY21.

Hopefully that helps.

Paul Binfield: Daniel, your third question was in relation to the corporate costs post the transaction. I guess the primary focus for us is obviously getting to that point, actually getting the transaction completed and the shareholder vote. A key point was drawn out in

the presentation today, is that we are looking at a simpler business going forward. A consequence of that is that it would be appropriate simply to review our corporate cost structure, you're right. That certainly is on the agenda.

Daniel Kang: (Citi, Analyst) Thanks for the call everyone.

Operator: Your next question comes from the line of James Ferrier from Wilsons. Please go ahead.

James Ferrier: (Wilsons, Analyst) Good morning everyone. Thanks for your time. First question was around Europe. Greg, could you provide a bit of comment there around the performance of the underlying business excluding the acquired portfolios? On our numbers for the second half EBITDA contribution there declined 13% year-on-year so if you could just comment on that, please.

Greg Hunt: Yes, thanks, James. We implemented a Europe-wide ERP system that was really designed to improve the efficiency and reduce costs. You can't run a billion dollar business on systems that were designed for a $100 million business. Ideally, you wouldn't be doing that at the same time as we were trying to integrate the brands but the opportunity came and frankly, we thought it was too good to pass up.

I do know that it's been a really frustrating and somewhat painful time for the people in the business trying to integrate those brands, drive the underlying base business and deal with the new RP system. It's really difficult to put a number on that but I think the point is we're through that now and the products and brands that we acquired are high quality high margin and we will deliver on the full business case.

Some of the supply challenges that we've had also impacted on our base business. The ERP system certainly in terms of our supply chain created some real issues for us. I would expect to see a much-improved performance from the European business next year.

James Ferrier: (Wilsons, Analyst) Yes and in terms of that improvement, the commentary from a lot of your peers, certainly more so in the June quarter, there's a lot more reference there to price increases being taken to at least partly mitigate the higher raw material costs. To what extent has Nufarm's business been able to implement price increases?

Greg Hunt: Where we can we have been able to. On some products you just can't recover the full price increases because there are alternatives. As you know, a lot of our base business in Europe are foundational products and it is difficult to increase prices there and that was really the logic for the acquisition, which are higher margin higher value products.

But we were not able to pass on price increases in our foundational business, our foundational products.

James Ferrier: (Wilsons, Analyst) Yes, okay and then moving to the divestment in LatAm, Greg, what are your thoughts around the implications for Nufarm's manufacturing assets around utilisation, purchasing power on raw materials, things like that post the divestment?

Greg Hunt: I think there are probably two areas where you can look at this and say are there any dis-synergies. In relation to procurement we have agreed that we will continue to supply procurement services for the South American business for a couple of years. Our experience has been that combining our purchasing power has made a real difference.

Previously, there were regions and countries that were all trying to procure products and our belief is that that's a suboptimal way to do it. Sumitomo may decide that they want to develop their own procurement capability over that two-year period so it's pretty hard to say just what the outcome will be. My personal view is that combining that purchasing power would be for the benefit of both companies.

In relation to our own products, we're really fundamentally talking about 2,4-D and imidacloprid. Sumitomo will continue to distribute those products for us in the South American market.

The other area is in portfolio and product development. As part of the agreement we have confirmed that we will continue to work together to develop new products for the Americas. In the instance where Nufarm has a product that it believes it could develop for soya bean or corn or cotton that is applicable to the Americas, we will co-develop that and Sumitomo will have first rights of distribution in the South American market. If they don't want to distribute those products then Nufarm has the ability to offer them to other distributors.

I think in terms of the value in this transaction, the dis-synergies are relatively small.

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

John Purtell: (Macquarie, Analyst) Good morning guys. How are you?

Greg Hunt: Hi John.

John Purtell: (Macquarie, Analyst) Just had a couple of questions. Just in relation to

Europe and again the raw material access, you've obviously got greater control in terms of sourcing some of the raw materials but what sort of improvement is required in terms of the broader market access? Because clearly it's an industry-wide issue it appears in China as far as accessing raw materials.

Greg Hunt: Yes, thanks, John. I think as we called out at the half, there was one product in particular and a number of others. I think we were forecasting about a $30 million impact and that's largely the way that it's played out.

On the majority of those products in that portfolio, we have a clear path to get supply albeit in some cases at higher COGS. The largest one of course is prochloraz. When we spoke at the half, we were very confident that we would see supply come back online and I think within a couple of weeks there was a major explosion in an industrial park in which the prochloraz factory is situated, that was quite catastrophic. I think there was in excess of 100,000 deaths.

Nerida Mossop: Seventy-eight.

Greg Hunt: I beg your pardon?

Nerida Mossop: Seven-eight.

Greg Hunt: Okay so 78 deaths. Thank you, Nerida. Anyway, it was a pretty catastrophic event. That park remains closed and therefore the factory that produces prochloraz is not operating. Our latest information is that that factory should start production again sometime in October. The reality is we're probably going to miss some of the early sales. If we're able to get product in October then we will be able to satisfy demand in the second half of the European crop year. That's why we're reasonably confident we'll see the contribution go from $75 million this year to $90 million next year and the differential, frankly, is prochloraz.

John Purtell: (Macquarie, Analyst) Thank you. Just a second question for Paul. The reduction in CapEx this year in fiscal 2020, just in terms of what's driving that and do you see that as a sustainable level moving forward and just particularly with reference to what CapEx is still required on omega-3? Thank you.

Paul Binfield: Absolutely, John. I think if you look at the key driver behind why working capital will be lower in 2020 versus 2019, the primary thing was, as Greg mentioned, the IT rollout in Europe has been completed now so that won't be repeated. In relation to omega-3, we spent probably around $25 million in the most recent financial year. That

will drop to probably closer to $10 million to $15 million in the coming year.

Completely believe that the $150 million is sustainable. In fact, I think there's potentially even a little bit of downside to that $150 million as well. I see it as being completely sustainable.

John Purtell: (Macquarie, Analyst) Just the last one. Just in terms of Latin America, Paul, the extent to which - and it's obviously been a high growth region for you so to some extent you're trading that away but to what extent has the business caused the working capital volatility and sucked up free cash over time?

Paul Binfield: It has been a high sales growth region, John, you're correct. If you look at this year by way of example, the top line growth has been 20%, EBITDA growth has been negligible. Average net working capital in that part of the world in the most recent year was about $480 million and on top of that there's a further $100 million of off balance sheet financing as well. It has been a high growth, relatively high EBIT growth region but we've not been able to convert that to cash. In fact, the net cash flow coming out of that business in the last five years has been negative.

Operator: Your next question comes from the line of Alex Karpos from Goldman Sachs. Please go ahead.

Alex Karpos: (Goldman Sachs, Analyst) Hi, good morning. Can you hear me?

Greg Hunt: Yes, loud and clear.

Alex Karpos: (Goldman Sachs, Analyst) Perfect. Just a quick one to start off. On the South American divestiture, any regulatory concerns? Should we be worried about any anti-trust or anyone stepping in there?

Greg Hunt: I think the regulators need to do their work. Albeit that said, we've done and Sumitomo have reviewed this with our respective competition council and we believe the potential is relatively low that there'll be any challenge in that regard. They have very minimal presence in LatAm right now.

Alex Karpos: (Goldman Sachs, Analyst) Got it, and turning to guidance, a bit below my expectation, I think history as well. Can you just talk a little bit about the [one eight] swing factors in greater detail, maybe by region? Then as we look at the split first half/second half, should expect a stronger second half skew than you would typically expect?

Paul Binfield: In terms of first half I think we're pretty much saying expectations would be broadly in line with prior year in terms of EBITDA. In terms of second half, the key things we're calling out there is ANZ, we are saying that we have an expectation that the profit improvement program will deliver $10 million to $15 million over and above what we've delivered in 2019. Then on top of that, if we get some more favourable weather outcomes, that should also be beneficial.

In terms of Europe, as Greg has mentioned, expectation of an additional $15 million EBITDA in respect of the acquired products and $5 million simply come back because there won't be the shutdown in the [unclear] factory. Again, expectations of continued growth in North America and seed technologies. That's our view of 2020 going forward.

Greg Hunt: I think the overall market is projected to grow at 2% to 3%. I don't think we're going to see the 10% or 11% growth that we've seen for the last two or three years top line but I'd be pretty confident that we should grow in the base business, somewhere around 5% to 6%.

Alex Karpos: (Goldman Sachs, Analyst) Thanks for that and one final one on North America. Impressive result here in the second half and you touched on share gains helping the wet weather backdrop. Can you touch a little bit more on what's going on there? Then just in terms of the competitive backdrop at a broader level, have you seen competition improve [unclear] consolidation now that we're a year and a bit out or is it still a tough go on the pricing side?

Greg Hunt: I think it depends on the different market segments and the different products. There's certainly some pressure on the foundation products as we call it. On insecticides and fungicides there's been margin growth. I think when we look at the opportunity next year there's been quite a lot of de-stocking if I can put it that way. That's largely been in the herbicide products. When we look at our opportunities for next year in our base foundational business, we see some opportunity there. It's certainly not as competitive as it has been in Latin America.

Paul Binfield: I think the real plus here is that the team there have done a fantastic job in terms of customer relationships over the last two or three years. When the market's got tight as it has [unclear] hemisphere summer, we've seen the customer loyalty really kick in and those guys have done a pretty fantastic job delivering a good outcome in what has been very difficult conditions.

I think too what you see with consolidation is that you've got our customer base who are

looking for options and they're looking for alternative suppliers of product and I think we're naturally falling into that slot. That's also benefiting us in terms of that market as well.

Alex Karpos: (Goldman Sachs, Analyst) Thanks. That's it for me.

Operator: Just a reminder, ladies and gentlemen, if you wish to ask a question today please press star one. Thank you.

There are no further questions at this time. I would like to hand the conference back to today's presenters. Please continue.

Greg Hunt: I'd just like to thank everybody for joining the call today and as I said, this is a significant reset for Nufarm and I look forward to catching up with some of you over the next few days and certainly as I said, leading up to the shareholder vote in December. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

End of Transcript