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Operator: ladies and gentlemen, thank you for standing by and welcome to the Nufarm Limited Interim Results Briefing for 2020. At this time, all participants are in a listen only mode.

After the speaker's presentation, there will be a question and answer session. To ask a question at that time, you will need to press star one on your telephone. I'd now like to hand the conference over to your first speaker, CEO, Greg Hunt. Thank you, please go ahead.

Greg Hunt: Thank you, Tara. Good morning and welcome everyone joining us on this call. Joining me today, I have Paul Binfield, Nufarm CFO and Brent Zacharias who is the manager of our seeds technologies business.

Before we start today's presentation, let me draw you to the attention - or draw your attention to the disclaimer, particularly the section on forward-looking statements. Moving to the results, 2019 presented us with a number of challenges, as I'm sure you would remember and putting aside now, COVID-19, which we'll comment on later, it's fair to say that the first half of 2020 saw a continuation of the challenging conditions that we experienced in 2019.

We have, however, made progress against the priorities that we set for the business last year. We've improved safety performance. We've maintained our margins and we've improved cashflow performance. We've also improved product supply to our customers in Europe by transitioning the supply chain for the acquired portfolio now under Nufarm's control.

The Australian performance improvement program is on track to deliver the projected annual run rate of AU$10 to AU$15 million ahead of schedule with $5 million delivered in this first half. We have expanded this improvement program across the business and we believe that we can deliver similar improvements in other regions.

We are on track for the first sales of our Omega 3 oil in the second half and we see this as a significant growth driver for the business. As I said, Brent has joined us on the call today and he'll provide us with an update later.

Importantly, the sale of our South American business completes next Wednesday and this will substantially strengthen our balance sheet.

Before we move to the financial results, I'll just make a couple of comments in relation to safety. As you have heard me say before, the safety of our people is our most important priority and the improvement in performance during the half was the result of a continued effort and focus by our entire workforce.

In terms of financial performance, as I said, it was a very challenging period and that is reflected in the results with revenues down around $100 million. You can see from slide 5, it's a complex result due to the sale of South America and the changes in accounting standards. Underlying EBITDA is down from $121 million to $66 million and reported NPAT is a loss of $122 million.

The positive for the half is the improvement in operating cashflow. We are making inroads to reduce our net working capital. We recognise there is still a significant opportunity for further improvement and that will be an ongoing focus for us.

Looking at the drivers of result on slide 6, you can see that the majority of earnings in the first half typically come from the Americas. The difference in this half is the impact of weaker demand in North America, where sales were down $60 million on last year.

This was not unique to Nufarm as the US crop protection industry was down around 10% for the 2019 calendar year due to extreme flooding. Although the floods were in the second half of our previous financial year, the impact carried over into the first half as customers ran down stock levels and we faced very strong competition due to the oversupply in the market.

Earnings were steady in South America where the benefits of a strong market were offset by increased competition. In Australia and Asia, earnings declined principally due to the continued drought conditions.

In Europe, we grew share in a flat market with increased earnings from the acquired portfolios; however, this was offset by strong competition and higher cost. The seed segment was impacted by poor weather in Australia and North America and delayed sales into Europe.

I know that COVID-19 is an issue on everyone's mind right now, so I'd like to address that up front. Crop protection products along with seeds and fertilisers are an essential input into the food production value chain.

Farmers need to be able to plant their crops and many governments around the world have recognised the importance of this in our current environment. With the improved seasonal conditions, we are experiencing stronger demand for our products. We are well stocked [inaudible] goods in most regions to supply this demand.

Australia is more challenging as we have driven inventory down due to the drought over the last two years and the sudden spike in demand coincided with delays in products out of China due to COVID-19. I do have to say that in order to satisfy this demand, we are reliant on continuity of our production facilities and international and domestic supply chains.

As of today, all of our manufacturing operations are producing with the exception of a small factory in Malaysia. There may be interruptions in the future. We can't predict this.

With the improved situation in China, though, supply is progressively coming back online with government restrictions on domestic transportation being lifted in the past three weeks. Trucking capacity has recovered from around 20% to now well above 50%.

There are new challenges with regional logistics due to border controls, particularly in Europe. So far, these have been manageable; however, they are putting upward pressure on costs and causing some delays of raw materials into our plants and deliveries of products to our customers.

Volatility in FX rates in the current markets may also impact our business and Paul will expand on this later.

This is obviously a unique and fluid situation. There has been no material impact on our business to date; however, given the constant challenges, the changes and the uncertainties, it is difficult to accurately predict what may happen over the coming months.

So, to summarise before I hand over to Paul, it has been a tough half for our customers, our suppliers and our own people. However, we are holding our ground in the marketplace. We have been disciplined and we have maintained gross margins. We have made headway in improving cashflows and we have launched a Group-wide program to further improve cashflow and lift returns.

Whilst these times are uncertain, we are entering the second half of the year with improved seasonal conditions in North America and Australia and very shortly we will have a much stronger balance sheet. I now hand over to Paul to review the financial results.

Paul Binfield: Thanks, Greg. I'd like to reinforce the comment that Greg made about this being a complex result. We provide a lot of information in this pack on the impacts of the new leasing accounting standard, AASB16 and the South American discontinued operations. We will be happy to work through any of your questions on the details as you process those figures.

The main points to take away from today are that while there is a significant decline in underlying earnings, much of this was driven by external market conditions. Furthermore, we recognise that with the divestments of our South American businesses, we have work to do to simplify the business, to improve efficiencies and to optimise our cost base.

As Greg has mentioned, we already commenced this work with improved cashflow and there's a significant opportunity to liberate more cash from our balance sheet over the next 18 to 24 months.

Perhaps the most important message, given the current context and financial markets, is our balance sheet will be much stronger following the divestment of the South American businesses.

The sale is scheduled for completion next Wednesday and we will use the net proceeds, around $1 billion to immediately reduce net debt.

Looking at the headline numbers on slide 9, you can see that the decline in revenues for continuing businesses fed through the gross profit and EBITDA. As Greg has already called out, this was largely in North America, Australia and Asia where markets are recovering from difficult weather conditions.

We increased revenue in both Europe and South America and gross margins were maintained in the continuing businesses. That was a very good outcome, given how competitive these markets have been.

Looking in detail at the results in the continuing businesses, we have set out the main drivers of performance on slide 10. As you can see, we've lifted earnings in Europe from the acquired portfolios by around $8 million.

The largest decline is in gross profit. This largely reflects the impact of reduced sales in North America, Australia and Indonesia. However, it also includes the margin decline from increased manufacturing costs in Europe.

Sales distribution and support costs also increased and, as Greg mentioned, we've kicked off what we believe to be an important Group-wide program to simplify our business, to optimise our cost base and to include efficiencies.

The program acknowledges the reality that we are a smaller business following the divestment of our South American operations and we need to be a much leaner organisation.

We are still in the planning phase, however, the program will reach across every region and every corporate support function. It will expand on the program that kicked of in ANZ this time last year. That program has achieved an annualised run rate of $10 million of incremental earnings and we believe it sets a good framework for the rest of the company.

Initial focus of the ANZ program was on back office and support functions, shifting to procurement, manufacturing and sales as the program has progressed. This is broadly how we see the Group-wide program developing.

Before I move on to the cashflow and balance sheet, I wanted to clarify the impact of AASB16 and material items. The adoption of AASB16 gave us a $15.2 million benefit to EBITDA for the total Group, as we reversed out the operating lease expense.

There was an off-setting impact from higher depreciation and financing costs of $16.8 million as the lease assets were brought on balance sheet. Lease liabilities have also been recognised on the balance sheet and these will be included in net debt and our leverage calculations going forward.

We have also recognised material costs of $27 million before tax during the half with around half of this relating to disposal costs for our South American businesses. The balance relates to legal costs of the Omega 3 canola oil patent cases and for additional restructuring costs in Australia. We do expect further material items in the second half and we’ve outlined them here.

Turning to slide 12, the improvement in cashflow was a highlight for the half. Our business is seasonal so we always see cash outflows in the first half as we build inventories for the main selling season and cash inflows in the second half, as we collect receivables from customers.

This year, we achieved a small decline in networking capital balances compared to the prior half. This was due to a large improvement in Australia where networking capital reduced by around $170 million as inventories were returned to more normal levels and receivables were reduced to lower sales but more importantly, due to lower sales outstanding DSO.

You can see on slide 13 that average networking capital for sales has continued to increase. A lot of this is due to the impacts of lower sales in the half. Improving networking capital will continue to be a priority and we estimate there is an opportunity to release at least $200 million of cash from our balance sheet over the next 18 to 24 months as we return to our medium-term target of 40%.

With the sale in South American business, we believe that the longer-term target of average networking capital over sales of between 35% and 37% is achievable.

I should, however, caution you that we may elect to deliberately hold higher inventory levels through the second half as a contingency measure for potential disruption to the supply chain from COVID-19. However, we are holding our target of 40% for FY21.

So moving to slide 14, net debt and financing costs. Interest costs were in line with the prior period and there was an increase in foreign exchange losses that drove the overall increase in net financing costs. Our exposure to South American currencies will be significantly reduced next year; however, we still have NuSeed operations in South America and ongoing currency exposures in Europe, not of all which we can hedge economically.

There is significant volatility in all FX rates in these difficult times but particularly in certain emerging markets where hedging is often difficult or uneconomic. This may lead to increased unforecast FX losses in the second half.

Net debt is up on the prior year; however, this is due to the inclusion of lease liabilities following the adoption of AASB16. There was a small reduction in net debt when this is excluded.

One week from today, we expect to complete the sale of our South American businesses and this will transform our balance sheet. After paying tax and transaction costs, the net proceeds of over $1 billion will be used to acquire the preference securities from Sumitomo for $97.5 million and to repay net debt of approximately $925 million.

We will report net debt and all our metrics, including the lease liability going forward so we are adjusting our leverage target range for core net debt for 1 to 1.5 times to a revised target range of 1.5 to 2 times to accommodate this.

I will now hand back to Greg to take you through the operations.

Greg Hunt: Yes, thanks, Paul. Look, as I said earlier, the first half was a very challenging period for our regional operations. We saw little respite from the challenges that we faced during 2019. However, as I said earlier, despite these challenges, I am pleased to say that we were able to maintain our position in most of our key segments and we held gross margins despite aggressive competition.

We do expect the market to remain competitive and that's recognised in the Group-wide performance improvement program that really is designed to build some contingency to deal with the competitive pressures and unforeseen events.

All right, so turning to the regional - the regions by region, starting with Europe on slide 16. We increased revenues in a flat market with market share gains particularly in key cereal markets. This was achieved with improved product supply and better supply chain control of the acquired portfolio.

However, the industry is still being impacted by China supply constraints and elevated raw material costs and this continues to negatively impact on our financial performance.

Importantly, contribution from the acquired portfolio was up around $8 million on the prior year; however, this was offset by increased manufacturing SG&A and - or SG&A costs. In the second half, we will be revisiting every element of how we support the business as part of the performance improvement program that we launched.

Turning to North America on slide 17, this market was severely impacted by record flooding in 2019 with industry analysts estimating that somewhere between 10 and 12 million acres were not planted and the crop protection revenues across the industry declined by 10%.

This led to an oversupply of market in the first half with very high channel inventories that impacted on our ability to generate sales in the period as our customers focussed on destocking.

In addition, the uncertainty around potential tariffs on imported Chinese ag chem products caused customers to delay purchases. Revenues in the half were down $60 million on the previous year.

Gross margins were impacted by stronger competition on the sales that were available and we absorbed some costs increases as a result of the start up of our Greenville operations.

Demand has improved significantly in March and the challenge now, really becomes a logistical exercise to get product to our customers before the planting window closes. The first half for Australia New Zealand was one of the most difficult our industry has seen with yet another year of no summer crop in Australia resulting in a fall in revenues of $50 million over last year.

Manufacturing under recovery continued to be a challenge in the half due to the reduced demand as the result of the prolonged drought conditions. This fed all the way through to gross margins; however, we were able to offset some of the impact with around $5 million of savings from the performance improvement program.

We launched this program around this time last year with a target of $10 to $15 million of annual improvement by the end of the first half of 2021. We reached the lower end of that target with more than 70 individual projects, big and small, contributing to the improved performance.

We also reduced our net working capital in this region by around $170 million with most of the improvement coming from reducing inventory.

What we are now experiencing is a spike in demand due to the rainfall that we've received across most of the major cropping areas in late January. Our sales in February and March are up on the same period last year; however, the challenge in coming weeks will be getting access to product and raw materials to meet the spike in demand.

We know that there are some products where we may not be able to meet all of the current demand. As an example, there is a global shortage of trifluralin herbicide which contributed $5 million of earnings in financial year '19, which will not be delivered in financial year '20.

The outlook for the second half is certainly better so far than last year but subject to the uncertainties of COVID-19, we do of course need follow up rain over the next few weeks to ensure a successful winter crop planting.

A couple of comments on Asia. It was also impacted by poor weather with drought and high channel inventories in Indonesia, particularly, impacting the results for the half. Sales into other countries were also delayed into the second half and we have seen an increase in sales in February and March.

South America, like most of our global competitors, we saw very strong sales growth in South America, or particularly Brazil where larger soy plantings increased demand. Competition has continued to be very strong in this market and earnings ended up slightly lower on the half as a result of this.

We are very well progressed in our planning with Sumitomo for the handover of the business, which as we said, occurs next Wednesday.

So now, let me just hand over to Brent for an update on seed technologies. Brent?

Brent Zacharias: Thanks, Greg. NuSeed has continued to make positive progress on developing and commercialising unique plant output rates that deliver specific downstream benefits to customers and consumers, which we describe as our value beyond yield strategy.

For the half year, NuSeed encountered some headwinds that impacted sales and earnings in our core seeds portfolio. These were primarily driven by Australia drought impacts to summer crop sales and endpoint royalties related to the 2019 Canola grain harvest.

Despite the slower first half, sorghum, canola and sunflower sale demand remained on track to achieve strong global sales growth in FY20, driven by the continuous launch of new products in our key segments.

Of note, we have recently achieved our first hybrid canola registration in Canada, the world's largest canola market. Sunflower demand in Europe continues to grow strongly in 2020 but is more skewed to second-half sales this year based on timing of supply chain delivery. We also continued to see strong growth in our Sorghum businesses in the Americas.

We are closely monitoring rainfall patterns in key canola growing regions in Australia as next season canola planting is typically undertaken in May. It will be a key swing factor in the second half earnings.

In November, NuSeed acquired assets related to the commercialisation of the oil seed crop carinata as a best-in-class plant-based feedstock for the production of biofuels. This is another very exciting value beyond yield growth opportunity.

Following small scale testing and development in South America over the past two years, NuSeed is now working with growers in Argentina to substantially increase plantings of carinata under a closed-loop business model.

Our first commercial crop in Argentina was harvested in the first half period and has been third party certified with achievement of greater than 100% greenhouse or GHG reductions versus petroleum diesel standards. We are in advanced commercial discussions with key off-take partners, the first downstream sales forecasted this financial year.

We are projecting a small positive EBITDA contribution in FY20 from our new carinata program with significant expansion plans over the coming years.

Now, moving to Omega 3. Omega 3 canola is one of our most exciting value-beyond-yield growth platforms with first commercial sales projected for the current financial year. We are utilising the data from our extensive fish feeding customer trials to reinforce the value proposition of Aquaterra with commercial preparations progressing very well.

The trial data is being recognised by the industry as demonstrating important benefits over and above sustainability, reliability of supply and ease of use and also include key results pertaining to fish health and quality.

The positive response from our target customers underpinned the decision to more than double our targeted oil production this year, through increased farm planting and introduction of higher yielding varieties.

While it has taken longer than expected, our regulatory filing with the US FDA is progressing and we have a high degree of confidence that an approval is close at hand. Similarly, our Canadian filings are nearing completion of the review and approval process.

We are also making important progress on supply chain initiatives which will deliver greater efficiency and help drive down our cost of goods over time. We have partnered with one of the world's leading agricultural processors, ADM to provide crushing and processing services and we have new seed varieties being introduced to its improved oil and grain yield qualities that will positively impact their supply chain costs next financial year.

Importantly, NuSeed has recently secured an Excellence Through Stewardship Certification which provides our partners and the industry with confidence in our trait stewardship protocols.

While the aquaculture market remains our initial focus for commercialisation, our Omega 3 oil to be marketed as Nutraterra, is also being developed for the human nutrition market and is in the final stages of a clinical trial evaluation. We have commenced preliminary discussions with potential customers in that important segment.

Within the period, NuSeed and partners have also completed a US Federal Court proceeding on a subset of patents that has reinforced the validity and the strength of our significant intellectual property estate.

I will now hand back to Greg.

Greg Hunt: Yes, cheers. Thanks, Brent. It is fair to say that we are in unique and uncertain times so this accurately forecasting what will happen and what the impacts may be on our business over the coming months is very difficult at the moment.

What we do know is that we need to produce food and therefore farmers need to plant crops. The products that Nufarm produce are an essential input into farmers' ability to successfully grow their crops.

While circumstances and challenges are updated daily, we are seeing stronger demand for our products. I believe our teams around the world are doing a fantastic job in proactively managing our response to the many challenges that COVID-19 has presented. In particular, our manufacturing teams who continue to turn up for work every day whilst most of their colleagues work from home.

The challenges will continue; however, we believe there is further opportunity to simplify and improve the efficiency of our business to create a stronger base for improved returns in the coming years and we will be chasing these opportunities.

As Brent has outlined, our first sales of Omega 3 canola oil are expected before the end of the year, further progressing what we believe is a valuable growth and value-creating platform for Nufarm.

Finally, before we open up for questions, I'd just repeat that we have received competition clearance from CADE who are the Brazilian competition regulator for the sale of our South American business. We are well progressed in the handover planning with Sumitomo and we will receive the funds from the sale next Wednesday. I will hand back to the operator now to take some questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone and wait for your name to be announced. If you need to cancel that request, it is the pound or hash key.

Our first question comes from Andrew Scott for Morgan Stanley. Please go ahead.

Andrew Scott: (Morgan Stanley, Analyst) Good morning, thank you guys. Greg, you mentioned improved seasonal conditions in Australia offset by our supply chain tightness. I just want to understand, how do you see that in a competitive context? Do you see Nufarm better positioned and potentially able to capitalise on a better supply chain in a more domestic capacity? Or do you think everyone is on a pretty level playing field here?

Greg Hunt: Well, I think it certainly calls out, Andrew, the value of local manufacturing in the times of tight supply. I'm not for one minute saying we will meet every order for every demand that is out there at the moment.

As you know, as a result of the drought that we've had over the last two years, we have driven out inventories down to lower levels than we would normally hold at this time of the year and if we go back to January, the forecast at that time was that we were not going to get any significant rains until April, so the rains that we had in late January have created an issue in terms of supply for us.

We have 3,000 or 4,000 tonnes of product on the water at the moment that we expect to receive in the next week or two so if these current conditions hold, and we get rainfall in two to three weeks' time, we're in a very strong position to meet a lot of that demand.

If we were to get significant rainfall over the next couple of days, it is literally a hand to mouth - it is literally hand to mouth but I would expect, from what I am seeing, that we're generally in a - probably in a more favourable position than some of our competitors.

Andrew Scott: (Morgan Stanley, Analyst) Understood and I guess that context, are we talking just a volume improvement here? I presume under that tight environment, I think your phrase was hand to mouth pricing comes in and you should get some margin expansion if you do have access to that product?

Greg Hunt: Look, we're certainly seeing some upward pressure on prices at the moment, clearly with where the Australian dollar is at the moment, our - we need to get those price increases anyway because we're buying a lot of that product in US dollar terms so our - certainly our COGS is going to increase and again, it's difficult to really determine just what might happen to our costs in terms of our manufacturing operations and logistics.

So I think on one hand, we'll see prices improve but on the other hand, it's just a little uncertain as to what costs may actually do over the next few weeks as well.

Andrew Scott: (Morgan Stanley, Analyst) Got it and finally, this one for Brent. Omega 3 and FDA approval. Any update there?

Brent Zacharias: Yes, as I mentioned, we were pretty pleased with the progress that we're continuing to make. We're in constant dialogue and we're supportive of the diligence from FDA and while I can't disclose the nature of the detailed conversations, it is moving forward and they are very actively working despite some of the current COVID situation. So we're quite encouraged and as I mentioned, I think it's close at hand.

Andrew Scott: (Morgan Stanley, Analyst) Thanks gents, I'll leave it there.

Greg Hunt: Thanks, Andrew.

Operator: Our next question comes from Grant Saligari from Credit Suisse. Please go ahead.

Grant Saligari: (Credit Suisse, Analyst) Good morning, thank you. Could you please just expand on some of the product registration challenges that you called out for Europe and just what would be the net effect on the business if that went adversely for you?

Paul Binfield: Yes, Grant, thank you for that. I guess we were keen to draw out the fact that there are - it's simply part of the life cycle management process in the European context that there is significant regulatory pressure and next year, we see there being restrictions or potential bans on a couple of key molecules, principally the bromoxynil and beta-cyfluthrin.

That said, as some products come under more regulatory pressure, that does increase opportunities elsewhere in our portfolio so it does give us the chance, in fact, to expand sales of other products.

So at this stage, the European team are basically calling out the fact that yes, there are some risks in terms of FY21 around some fairly significant products which are under pressure but they're also calling out, too, there are opportunities as well.

At this stage, we're not calling a net down in that circumstance, it's more okay to just flagging to you the fact that there are products under pressure and it's a continually evolving process that we have to actively manage in the context of the tough European regulatory environment.

Greg Hunt: I think, Grant, just to add a little bit more to that one, Paul specifically called out bromoxynil there, which is probably about $7 million-odd margin for our business in Europe but that's a direct substitute for those products where the issues that we acquired as part of the Surf portfolio.

So in many cases where we've got regulatory pressure, we do have - and if those products, we're in a position where we couldn't continue to sell them, in most cases we have other products that we could sell.

Grant Saligari: (Credit Suisse, Analyst) It's probably a tough question for you to answer or to quantify, but how much worse do you think the environment - the regulatory environment, is in Europe since even you acquired the portfolios there a few years ago? It's - and how tough do you think it's going to get for you over the next several years? Because it is a very fluid situation and it tends to be going in adverse direction for you.

Greg Hunt: Well I certainly think that the pressure will continue but I think the fact remains that until there are alternatives, we hear a lot about biologicals and more natural substances but the reality is that the efficacy of those products are just not to the same level that we see in our products.

So the pressure is building but then when you ultimately get to, are we going to ban those products and what are farmers going to do? It's a very different situation. I mean, glyphosate is one of the probably bigger examples in Europe and we hear a lot about governments banning it but then when you ultimately get to the decision, it becomes difficult when the farmers start saying well, what am I going to use?

There are no direct or economical replacements for a lot of these products and you're right, it is difficult because it is changing. We recognise that the pressure is increasing and where we can, we're starting to evaluate other products that over time, will - more natural-type products that we can replace that chemistry with but I don't think it's an Armageddon, I don't think it's going to happen as quickly as some commentators would actually have us believe.

Paul Binfield: I think Grant, too, importantly if you look at that portfolio, clearly at the time of the acquisition, we made a number of calls as to what we thought would happen from a regulatory perspective.

I think if we look back in reflections two years later, I think our view would be that we were probably overly pessimistic. We probably have had products have a better outcome from a regulatory perspective than we perhaps expected at the time of the transaction.

So it's a tough environment but I think so far, our team are doing a pretty good job in terms of making the right calls and the right assessment.

Grant Saligari: (Credit Suisse, Analyst) Just quickly, your outlook for the European spring in terms of planting and just clarifying on the ANZ FX impact. Do you think you will get full cost recovery from an FX perspective?

Paul Binfield: I think thus far, it's early days yet, Grant, on how things are moving but certainly, our expectation would be given all of our competitors are pretty much in the same boat in terms of low [low chal] inventory and most of them with - in fact all of them, with USD input costing, you've got to just pass those prices on, those costs on, are relatively reasonable.

Greg Hunt: I think just in terms of conditions in Europe, there are ups and downs depending on which country you're actually focussed on but if we look at this year versus last year, conditions are certainly no worse than what they were at this time last year so that we don't see any material downside weather-related issues in Europe at the moment.

Grant Saligari: (Credit Suisse, Analyst) Okay. All right, that's helpful. Thank you.

Operator: Our next question comes from Richard Johnson from Jefferies. Please, go ahead.

Richard Johnson: (Jefferies, Analyst) Thanks very much. Paul, can I just go back to your waterfall slide on page 10? I just want to try and understand a little bit more what happened to SG&A. I was just wondering if you could give me a feel for how that reduction - or that increase, was spread around the region. So how much of that $23 was in Europe, for instance?

Paul Binfield: Yes, sure. I think it's fair to say the majority of that increase was in Europe. There was a little bit in North America and there was probably about a net saving coming through from the performance improvement program in ANZ.

In terms of Europe, one - one accounting treatment change so with the new change in laws in France, we can no longer give rebates to our customers. So typically we provide them with - we typically provide them with promotional support instead. So essentially, there's a switch there between SG&A and gross margins but that [is] inflating the SG&A figure there, Richard.

If we look at the rest of Europe, that there aren't specific major standout costs. So for example, we're seeing freight and warehousing costs a little bit higher too because we're holding more inventory on the ground there.

We're seeing some increased costs, again, around promotional activity. There's lots of small pockets of cost increases and I guess the genesis of the cost improvement, or the improvement programs that we're now running through the rest of the group is the fact that we can do a far better job in terms of making those costs work harder for us.

So I think that that's one of the reasons why we're looking at this and saying that we're not satisfied with what we're seeing in terms of the SG&A cost increase and see what we can do to get that under better control.

It has been so successful in the ANZ business, which will be taking that same template and rolling it through the rest of the regions.

Richard Johnson: (Jefferies, Analyst) Right, got it. That's helpful, thanks. So when you look back, there's nothing, do you think, that might have been avoidable in that number?

Paul Binfield: I think hindsight is a wonderful thing. You will look at the costs that we built into the business in terms of some of the new portfolios coming in and frankly, some of those costs went in probably ahead of the revenue. So in hindsight, yes, I'd like to see perhaps a more [unclear] fulfilled in terms of those costs, Richard, but outside that, no significant [regrets].

Richard Johnson: (Jefferies, Analyst) Got it, thanks. That's great, Paul. That's helpful, thanks, and then just to clarify, are you suggesting that the - what you're going to do going forward, the quantum selling would be similar to what you're planning on achieving in Australia?

Paul Binfield; I think it's going to vary region by region because we need to have a good look at the opportunities in each region and how we can best exploit them. Again, to be clear, this won't just be SG&A. We'll be looking at logistic supply chain, manufacturing. We'll be having a good look at the business in the same way that we did in the ANZ region as well.

Greg Hunt: I think, Richard, just in relation to Europe specifically, we do feel as though we work through a lot of the issues in Europe over the last 12 months and the majority of our focus has been on product supply and bedding down the new ERP system. So our focus over the next 12 months will shift to improving our efficiency to offset some of the increases that we've seen in this last period.

Richard Johnson: (Jefferies, Analyst) Got it, thanks, Greg and then just for Brent on Omega 3. I'm sorry if you did this and I missed it but could you just run through the thinking and perhaps put some numbers around the fact that you're doubling your volume production target in FY21? I'm trying to understand what that actually means.

Brent Zacharias: Sure. Thanks, Richard. Yes, I guess what we're trying to describe is that we're both increasing our acres as well as introducing new genetics with higher green and oil yields and probably also moving into some higher production zones.

So our overall target, I know we've talked more about acres in the past, but our overall target is to more than double the amount of oil volume that we're actually going to deliver to the marketplace.

So you go back in our history and we went from 3000 acres to 15 to 35,000 last year and rather than just trying to quote an acre number, we think it's more meaningful to say that from the 35,000 acre base last year, we're now planning to more than double the amount of oil volume that we intend to bring to the market in this next year.

Richard Johnson: (Jefferies, Analyst) Okay, so just to clarify that. That's for sale or delivery in the same year, not the following year?

Brent Zacharias: No, sorry. Yes, we'll be planting increased acres in the - in 2020 for sales that will impact our FY21 period.

Richard Johnson: (Jefferies, Analyst) Okay, got you. Okay, perfect. That's very helpful, thanks very much. That's it from me, thanks.

Brent Zacharias: Thanks, Richard.

Operator: Our next question comes from James Ferrier from Wilsons. Please go ahead.

James Ferrier: (Wilsons, Analyst) Thanks Greg and Paul, thanks for your time today. First question is on gross margins. I think in the presentation deck, you talked about the result having achieved a flat margin at 27% versus PCP. Can you just clarify, is that normalised as in ex the European rebate issue, ex any movement around AASB16?

Paul Binfield: It's a like-for-like basis, James.

James Ferrier: (Wilsons, Analyst) Yes, okay, so given that, Paul, you've got this environment where certainly in the past at least, the recent past, you've had higher raw material costs and an inability for Nufarm to increase prices, generally speaking, to offset that. So when we look to the second half, do you think it's a reasonable expectation that you would also see gross margins similar to PCP?

Paul Binfield: I think those - that's a pretty fair assumption, James. I think if we look at - if we look at Europe by way of example, we've had a very good first half in terms of the Surf and Century portfolio, which tends to have higher margin than our foundational product.

So that's a mixed benefit but I also call out too, that because of some of the supply issues out of China that we suffered during '19 and just lack of availability of product. That resulted in some higher COGS and we are still seeing some of those higher COGS coming through in '20 and some of that will still be the case in the second half as well.

So I think the outlook we've got is in fact we are working through some of the higher priced inventory now. We still see some of that persisting into the second half but our outlook is probably more optimistic than this time last year so I think we felt we were in the midst still then of the issues caused by those restricted supply issues.

James Ferrier: (Wilsons, Analyst) Yes, okay. That's encouraging. On FX, with the heavy skew of the business activity to second half and given the sharp weakness in the A dollar, it must be an expected big positive in terms of the translation benefit. Could you remind us what the average translation rates were in FY19 for the major currencies? Maybe the US dollar and the Euro.

Paul Binfield: Yes, I think that's got a slide there towards the back, James. I think slide 30. So essentially, we're saying that for the half, and it probably wasn't too different for the full year USD was 68.5, Euro was 62 and pound was 54. So if you look at rates today, you're talking a fairly substantial shift in the rates prevailing last year.

James Ferrier: (Wilsons, Analyst) Yes, okay and now I think you made reference that if we move further down the P&L, that there might be some head winds around hedging and FX losses given the volatility but what you're referencing there is the translation benefit that would come through EBITDA?

Paul Binfield: Yes, so essentially, we see it as being tail winds in terms of operating performances, exactly as you allude to but we are concerned that we've got some exposures in certain emerging markets.

For example, Romania, Poland, Hungary, where there is quite persistent currency volatility. Difficult to hedge and uneconomic to hedge and there is the potential, depending on how currency is tracking in the next four or five months, that we might cop some higher FX losses in that period.

So it really is a watchout but yes, we will be exiting LATAM, obviously, in a couple of weeks but we still do have some smaller but still significant exposures and in the current environment, that can be painful.

James Ferrier: (Wilsons, Analyst) Okay, makes sense. The timing of the LATAM divestment announcement, there was some reference in documents to the potential risk of dis-synergies but possibly around procurement costs as the scale of the group shrunk. Has there been any further development that you can provide comment on in that regard?

Greg Hunt: James, part of the agreement is that for the next two years, Nufarm will continue to manage the supply, to negotiate on - to continue to negotiate further supply of products into Latin America so we don't see any significant impact in that time.

If over that period, Sumitomo decide that going forward they want to do their own procurement, then there is potentially some - I guess our ability to negotiate if we were to lose those volumes may have some impact. As I said, what Sumitomo do after that two-year period is entirely up to them.

Our argument would be that by combining our buying power, we actually get a better result which is, if you remember, why really three, four years ago, we centralised that and put a team into China so that we were able to get the benefit having countries negotiate on their own. I mean, everyone is trying to solve for their operations, no one is trying to solve for a one Nufarm.

So that's the logic. We think it's compelling and we will be trying to convince our friends that they are going to be better off with Nufarm doing that.

In terms of our products that we develop in our portfolio, the agreement we have is that those products will be offered to Sumitomo and if, for whatever reason, they decide that they don't want to distribute those products in Latin America, then we have the right to offer them to other companies. So we see little downside from that point of view.

James Ferrier: (Wilsons, Analyst) Okay, makes sense. Then just to finish, a couple of points to clarify. The trifluralin issue in Australia. My understanding is, particularly in WA, that business is typically transacted in the first half so a $5 million impact you called out, I'd assume some of that has already been incurred in the first half?

Paul Binfield: The majority of that is - would typically fall in our second half, James. So that is an H2 to…

Greg Hunt: They'd be sales we'd be normally making at this time of the year. Maybe a touch earlier but I - certainly after the first half.

James Ferrier: (Wilsons, Analyst) Okay, understood and then lastly, the reference to a doubling of oil production for Omega 3 in FY21. Does that change the economics such that you would lift your earnings guidance for Omega 3 for that year?

Brent Zacharias: At this time, we're still providing the same guidance of EBITDA positive in FY21.

James Ferrier: (Wilsons, Analyst) Okay, great. Thanks for your times, Gents.

Greg Hunt: Thanks, James.

Paul Binfield: Thanks, James.

James Ferrier: (Wilsons, Analyst) Thank you.

Operator: Our next question comes from Alex Karpos from Goldman Sachs. Please go ahead.

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

Greg Hunt: Yes, Alex, loud and clear.

Alex Karpos: (Goldman Sachs, Analyst) Perfect. I just want to focus on North America for a little bit. I appreciate the colour around the floods obviously carrying over on inventories. How far through that destocking are we? If we haven't seen the end yet, how long do you think we have to go?

Greg Hunt: So, in the conversations that I have with customers in North America, they have significantly destocked over the last six months but what we have seen is a reluctance to purchase in what we would have normally seen in December and January. That is largely flowed into February and March and we are seeing very strong demand.

Now, when we look at what we delivered last year, the real question is, how much of that $60 million do we think we can make up in the second half? That's the challenge that I referred to. It really becomes a logistics exercise. We're getting the demand.

We're sitting on $400 million of inventory in North America at the moment and we have other products and other raw materials on the water. Subject to restrictions that may happen with being able to move products from our factories to and across state borders and they are issues that we're dealing with daily.

With some tail winds, I think we can make up quite a large part of the deficit that we've seen in the half. The demand is very strong.

Alex Karpos: (Goldman Sachs, Analyst) Got it and is it fair to say that most of your competitors are facing the same supply chain bottlenecks, i.e. if everyone is facing the same kind of tighter inventory situation, pricing should be pretty supportive across these regions?

Greg Hunt: Well Alex, I would assume that. I've been really focussed on our business so I haven't really been focussing too much on our competitors but I would certainly assume that many of them are faced with exactly the same issues that we are.

Alex Karpos: (Goldman Sachs, Analyst) Got it and one final one. I may have misunderstood when you all were talking about seeds but did I interpret it right when you said the law suits were largely settled at this point in time? The litigation ongoing?

Paul Binfield: So you mean in relation to…

Alex Karpos: (Goldman Sachs, Analyst) The patent infringement cases. Yes.

Paul Binfield: Sure, okay. Brent?

Brent Zacharias: Sure, I'll take that. Yes, what I'd mention is that in the first half we did conclude a US Federal Court proceeding and that was based on a subset of our patents that reaffirmed both infringement and validity of those patents. So that particular case, there still are some post-trial motions and potential repeals but that's where we stand on the status of that particular case.

Alex Karpos: (Goldman Sachs, Analyst) Perfect, thanks for the time.

Brent Zacharias: Thank you.

Operator: Thank you, our final question will come from John Purtell from Macquarie. Please go ahead.

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

Paul Binfield: Hey, John. No, very good, thank you.

Greg Hunt: Well, thanks John.

John Purtell: (Macquarie, Analyst) That's the way. I just had a few quick questions if I can. Greg, just in terms of levels of competition markets. You talked previously around North America and Europe remaining very competitive and I suppose that's what weak demand does but do you expect that to settle down? Or has it settled down based on what you're seeing today? Obviously, a fair bit of product should go through in the second half but I suppose everyone is competing for that, as well.

Greg Hunt: Yes, John, I think it's still going to remain fairly competitive whilst consolidation actually settles down but I do think, in certain pockets there, as we already discussed, there will be opportunities to improve prices and improve margins and where we're seeing product in short supply, that is happening.

My watch out, my callout, is that we are starting to see supply chain costs that are very difficult to get your arms around at the moment but there is sort of anecdotal stuff every day where we've got people that have not - able to turn up or not turning up for shifts.

Logistic costs. Getting access to trucks. Trucks that are trying to cross borders and are lined up having to wait 10 or 12 hours to get clearance. So I mean all of these things are going to add some costs to our business but it's just very difficult to quantify.

Certainly, in terms of demand. In terms of sales and price increases, there's no question we are seeing that.

John Purtell: (Macquarie, Analyst) Thank you and just two other ones, in terms of the products you've talked about coming under more regulatory pressure. Does that relate to environmental issues? Or what's actually happening to drive that?

Paul Binfield: This is principally in Europe, John and it simply is the fact the regulator over there is taking a tougher line, whether it be environmental issues or health issues. It simply is, I guess a continuation of the path that we've seen in Europe, probably over the last five to seven years.

So there's no real intensification of pressure but certainly, it is a continual focus and the regulator, it is the toughest market without a doubt. As I say, that provides us with hurdles and challenges but provides us with opportunities as well.

Greg Hunt: I think, John, it's - it probably gets more airplay today. Glyphosate and the cases around that have put all of these things on the map but Paul is right. When you look at the challenges that we've had over Europe for the last four or five years, there's always challenges around products coming in and out of the market.

Certainly, the - we look back at the Century and Surf so-called acquisitions, there are products in there that have given us a lot of upside and upside that we wouldn't have predicted. So some of these products that are under the regulatory pressure at the moment, products that we've acquired in that portfolio would be substitutes for a number of those products that are under regulatory pressure.

John Purtell: (Macquarie, Analyst) Thank you and just the last one, coming back to the FX question. Just to understand your flow of, if you like, revenues and costs. I mean obviously, you've got some element of products going across different geography so I appreciate the translation benefits are there in Aussie dollars but to what extent are you going to be seeing local currency cost pressures here in Australia? In other markets, where you've got US dollar product moving around and your ability to recover that?

Paul Binfield: The ability to recover, John, typically comes about as to whether you are different from your peers in terms of your manufacturing base and what you're doing. So if I look at the Australian situation, I think it's fair to say that pretty much all of our peers will be importing in US dollars or Euro and therefore they will be facing similar issues in terms of FX.

If I look at the US, essentially not really too much of an issue because again, it will be mostly USD imports onto USD sales and again, the situation in Europe is far less significant again in the sense that you're talking about USD and Euro imports in Euro sales.

The concern - the bigger concerns I've got around FX are really the FX gains and losses on - in networking capital balances in some of those emerging markets where we might get a nasty shock and probably a bit of a one-off loss. That is the concern I've got, John.

John Purtell: (Macquarie, Analyst) Thank you, very much.

Paul Binfield: Thanks, John.

Greg Hunt: Thank you.

Operator: Thank you. We have no further questions so I believe that will be the conclusion of today's conference call. Thank you all for attending. You may now disconnect.

Greg Hunt: Thank you, [Tara].

End of Transcript