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ASX Release – Company Announcement

Non-cash asset impairment and preliminary, unaudited FY20 earnings estimate

Nufarm advises that following a review of the carrying value of its assets in accordance with relevant accounting standards, and subject to finalisation of the audit, the company expects to recognise non-cash, impairment charges in relation to its European assets of approximately $215 million in financial statements for the year ended 31 July 2020. This comprises a pre-tax impairment of intangible assets of approximately $190 million and a derecognition of tax assets of approximately $25 million.

The assessment of the carrying value takes into account recent operating performance and a moderated outlook of future earnings based on an expectation of continuing margin pressure in the company's base product portfolio due to higher manufacturing costs and increased competition. While there are early indications that raw material costs for products in the portfolios Nufarm acquired in 2018 are easing, input costs for a small number of products are expected to remain elevated in the medium term and this has also been reflected in the carrying value assessment.

Nufarm CEO, Greg Hunt, said, "We believe the European business has reached an earnings trough in FY20, however it is appropriate to take this step to revise the carrying value of the assets.

"We have a comprehensive improvement program underway in Europe to grow revenues, reduce our cost to serve and lift margins. We expect this program, combined with an anticipated easing in raw material costs and improved weather conditions would be the major drivers of improved profitability in the European business in FY21."

Further detail on the European performance improvement program will be provided when full year results are announced on 23 September 2020.

Preliminary, unaudited FY20 earnings estimate

Based on preliminary, unaudited accounts, Nufarm expects underlying group earnings before interest, tax, depreciation and amortisation (EBITDA) for FY20 to be in the range of $290 million to $300 million. Following the sale of the South American businesses, underlying EBITDA from continuing operations is expected to be in the range of $230 million to $240 million.

"We have delivered positive momentum across most regions in the second half of the financial year, however earnings for the full year will be down on last year, primarily due to the divestment of the South American businesses, lower earnings in the first half and reduced earnings in Europe.

"Drought breaking rains on the east coast of Australia in late January and good follow up rainfall has provided welcome relief for farmers and generated strong demand for crop protection products. This has more than doubled second half underlying EBITDA for the ANZ business compared to the prior year and provides a much stronger outlook for the summer cropping season.

"EBITDA also increased in North America in the second half with increased crop planting and improved seasonal conditions lifting demand for crop protection products, with a particularly strong performance in Canada. This more than offset the impact of lower demand in the Turf and Ornamental segment due to COVID-19 restrictions. Earnings in the second half also benefited from a stronger US dollar relative to the Australian dollar.

"Our business in Asia had a strong second half as a result of improved weather, positive momentum from product launches and lower costs contributing to a much stronger EBITDA performance than the second half last year.

"Seed Technologies generated revenue growth however second half EBITDA is expected to decline slightly on the prior year due to a bad debt write-off relating to a single customer in Europe and increased costs associated with the ramp-up in commercialisation activities for Omega-3 canola oil and Carinata.

"Second half EBITDA for the European business declined significantly on the prior year. Hot, dry conditions in northern and eastern Europe reduced demand for crop protection in cereals markets and COVID-19 impacts also weakened demand in horticulture and ornamental markets. Demand in the fourth quarter was further impacted by high channel inventories and purchasing intentions for autumn and spring campaigns moving closer to end consumer demand. While product availability improved on the prior year, raw material costs remained elevated and margin pressure on Nufarm manufactured products, particularly 2,4-D, continued to impact earnings."

Nufarm expects to report foreign exchange losses for the full year of approximately $33 million of which approximately $9 million relates to discontinued operations. The loss is due to pandemic related currency volatility causing rapid depreciation of currencies in some markets in which Nufarm operates, particularly in Eastern Europe and Mexico. Nufarm is reviewing options to more effectively manage this currency exposure during FY21.

Strengthened balance sheet

Nufarm's gearing has improved following completion of the sale of the South American businesses in April 2020. Improved working capital management has also increased underlying cash from continuing operations and underlying free cash flow[1].

Year-end leverage (net debt/EBITDA) is expected to be within our target range of 1.5 to 2.0 times. Substantial undrawn banking facilities are also available to the Group, assuring high levels of liquidity.

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Authorised for lodgement by:
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[1] Underlying free cash flow is underlying cash from continuing operations less underlying investing cash outflows from continuing operations.