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ASX Release – Company Announcement

Financial results for two months ended 30 September 2020

Overview

- Crop protection revenue growth and improved EBITDA in all regions
  - August and September are typically a period of weak demand and negative earnings
- Strong balance sheet and liquidity
- Continued progress toward net working capital targets
- Performance improvement program on track
- Positive momentum has continued into October 2020
- Continued COVID-19 disruption risks in European and North American markets

Today Nufarm announced financial results for the two months ended 30 September 2020 to complete the transition to the new financial year reporting period.

In announcing the results, Nufarm Managing Director and Chief Executive Officer, Greg Hunt, said, “We have continued to make progress against key priorities. Our balance sheet remains strong, we have made further progress in improving net working capital ratios and we are starting to see the benefits of the performance improvement program reflected in our cost base.

“While these two months are traditionally a quiet period for trading, the positive momentum we saw in the second half of last financial year has continued with revenue growth of 23% on the proforma comparative period. This growth was driven primarily by stronger demand for our product portfolios in Australia and Europe and momentum has continued in all regions through October, providing us with a good start to the new financial year.”

A further update on trading will be provided at Nufarm’s annual general meeting of shareholders on 18 December 2020.

Earnings summary

Group earnings

Summary financial results (continuing operations unless specified)	2 months ended 30 Sep 2020 $000	Proforma 2 months ended 30 Sep 2019 $000	12 months ended 31 Jul 2020 $000	Change 30 Sep 2020 vs 30 Sep 2019 %
Revenue	267,320	181,195	2,847,375	47.5 %
Revenue excluding Corporate revenue	222,136	181,195	2,761,988	22.6 %
Gross profit	39,920	36,778	734,729	8.5 %
Underlying SG&A	(119,801)	(122,921)	(706,570)	2.5 %
Underlying EBITDA	(43,379)	(52,816)	235,767	17.9 %
Underlying EBIT	(78,815)	(86,373)	34,355	8.8 %
Operating profit / (loss)	(85,677)	n/a	(214,315)	n/a
Net external interest	(9,348)	(12,161)	(72,626)	23.1 %
Foreign exchange (gains) / losses	(4,659)	(1,979)	(23,565)	large
Underlying net profit / (loss) after tax	(85,934)	n/a	(80,605)	n/a
Net profit / (loss) after tax	(91,345)	n/a	(362,412)	n/a
Net profit / (loss) after tax - discontinued operations	-	n/a	(93,667)	n/a
Net profit / (loss) after tax - total group	(91,345)	n/a	(456,079)	n/a
Statutory effective tax rate	8.4 %	n/a	(16.7)%	n/a
Basic earnings per share - excluding material items (cents)	(22.6)	n/a	(24.8)	n/a
Basic earnings per share (cents)	(24.1)	n/a	(99)	n/a
Total dividend per share declared in respect of period (cents)	-	n/a	-	n/a

The financial information included in this announcement is based on financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and audited by KPMG. The information is presented on a continuing operations basis unless otherwise specified. The announcement also includes non-IFRS measures and pro-forma comparatives for the two months ended 30 September 2019 which have been provided for additional insight to performance. Non-IFRS measures and pro-forma figures have not been subject to audit or review.

The two months to 30 September are a period of lower demand for crop protection and seed technologies, consistent with seasonal agricultural cycles. Nufarm revenues (excluding the divested South American crop protection businesses) for this period typically reflect around 10% of annual sales.

Within this context, improved demand relative to the proforma comparative period and cost savings from the performance improvement program delivered increased revenue and earnings for the two-month period with the business showing continued resilience to the impact of COVID-19.

Revenue (excluding corporate sales) increased 23% relative to the proforma comparative period with improved demand in all crop protection regions. Revenue in the seed technologies segment declined slightly on the proforma comparative period due primarily to a change in timing of revenue recognition relating to a new licensing agreement for sorghum and sunflower sales in Australia.

Gross profit increased 9% on the proforma comparative period and underlying selling, general and administrative costs (SG&A) reduced $3 million reflecting initial benefits of the performance improvement program commenced in the prior financial year and some shift in timing of discretionary expenditure.

Underlying EBITDA increased 18% reflecting both increased sales and reduced SG&A costs.

Net interest expense reduced $3 million on the proforma comparative period reflecting lower net debt while foreign exchange losses increased $3 million due to increased currency volatility in Eastern European countries.

The statutory effective tax rate of 8.4% includes the impact of non-recognition of the tax benefit for losses in certain countries and a provision of $3 million for withholding tax to be paid in relation to the repatriation of offshore earnings.

Segment earnings

Revenue

($000s)	2 months ending Sep-20	Proforma 2 months ending Sep-19	Change	12 months ending Jul-20	Change
Crop protection					
Australia and New Zealand	71,179	51,963	19,216	562,897	(491,718)
Asia	21,284	15,046	6,238	165,947	(144,663)
North America	74,323	71,322	3,001	1,051,285	(976,962)
Europe	48,293	35,117	13,176	783,028	(734,735)
Total Crop protection	*215,079*	*173,448*	*41,631*	*2,563,157*	*(2,348,078)*
Seed Technologies - global	7,057	7,747	(690)	198,831	(191,774)
Non-operating corporate	45,184	-	45,184	85,387	(40,203)
Nufarm Group - continuing operations	**267,320**	**181,195**	**86,125**	**2,847,375**	**(2,580,055)**
Discontinued operations	-	201,208	(201,208)	643,630	(643,630)
Nufarm Group	**267,320**	**382,403**	**(115,083)**	**3,491,005**	**(3,223,685)**

Underlying EBITDA

($000s)	2 months ending Sep-20	Proforma 2 months ending Sep-19	Change	12 months ending Jul-20	Change
Crop protection					
Australia and New Zealand	(2,143)	(7,789)	5,646	38,800	(40,943)
Asia	2,834	1,778	1,056	30,481	(27,647)
North America	(6,224)	(10,745)	4,521	92,333	(98,557)
Europe	(19,119)	(22,047)	2,928	99,255	(118,374)
Total Crop protection	*(24,652)*	*(38,803)*	*14,151*	*260,869*	*(285,521)*
Seed Technologies - global	(4,515)	(2,536)	(1,979)	31,471	(35,986)
Non-operating corporate (costs)	(14,212)	(11,477)	(2,735)	(56,573)	42,361
Nufarm Group - continuing operations	**(43,379)**	**(52,816)**	**9,437**	**235,767**	**(279,146)**
Discontinued operations	-	30,833	(30,833)	58,918	(58,918)
Nufarm Group	**(43,379)**	**(21,983)**	**(21,396)**	**294,685**	**(338,064)**

Revenues in Australia and New Zealand increased 37% relative to the proforma comparative period with improved seasonal conditions in Australia driving good demand for herbicides. Stronger revenues and improved recoveries of manufacturing overhead costs contributed to the increase of $6 million (72%) in underlying EBITDA.

Revenues in Europe increased 38% on the proforma comparative period with strong growth in herbicide sales. Revenues in Europe during this two-month period typically represent approximately 5% of annual revenue and the product mix is not considered indicative of the full year outlook. EBITDA improved $3 million (13%) on the pro-forma comparative period due to both increased sales and a reduction in SG&A costs of $2 million which partially offset an increase in stock obsolescence costs.

Revenues in North America increased 4% relative to the proforma comparative period with demand building in September after a slow August in which demand was impacted by storms and bushfires. Reduced SG&A costs also contributed to the underlying EBITDA improvement of $5 million (42%), including a shift in timing of some discretionary expenditure.

Improved seasonal conditions in Indonesia drove increased herbicide sales and earnings for the Asia business with revenues up 41% and underlying EBITDA up $1 million (59%) relative to the proforma comparative period.

Revenues in the Seed Technologies segment for the months of August and September typically represent around 5% of annual revenue. Revenues for the two months to 30 September 2020 declined slightly on the proforma comparative period with a shift from direct sales of sorghum and sunflower in Australia to a licencing agreement under which the first royalty income will be recognised in the new financial year. Revenue from the first sale of omega-3 canola oil was recognised in October 2020 in line with the timing of the initial shipment. Increased costs associated with the commercialisation of omega-3 canola and carinata contributed to the decline in underlying EBITDA of $2 million (78%).

Corporate revenues represent zero margin sales made to Sumitomo under the transitional services agreement for procurement services to the South American businesses. Corporate costs increased $3 million primarily due to one-off costs associated with the change in financial year end.

Material items

	2 months ended 30 September 2020	
	Pre-tax $000	Post-tax $000
Material items by category		
Asset rationalisation and restructuring	(1,926)	(961)
South American business disposal		
- high yield bond	(4,936)	(4,450)
Total material items	**(6,862)**	**(5,411)**

Material items excluded from the underlying result related to restructuring costs for the implementation of the performance improvement program and the cost of obtaining the exemption associated with the sale of the South American crop protection businesses in April 2020 described in more detail below.

Balance sheet and financial position

	As at 30 Sep 2020 $000	As at 31 Jul 2020 $000	Change %
Net debt	606,207	441,264	37.4 %
Net working capital	1,044,934	981,979	6.4 %
ANWC/sales excluding external corporate (%)	44.7 %	46.4%	(165)bps
Leverage - total group (includes lease liabilities)	2.22	1.50	47.9 %
Gearing %	22.9%	17.1%	578 bps

The increase in net working capital and net debt from July to September is typical of the annual trading pattern. Relative to 30 September 2019, net working capital improved by $134 million (11%). Average net working capital as a percentage of sales continues to track toward the target of 35% to 40%, with the improvement in the two-month period reflecting both increased sales and reduced average net working capital balances.

The sale of the group's South American crop protection businesses in April 2020 would have triggered a requirement for unutilised sale proceeds remaining at 31 March 2021 to be used to either make a tender offer to noteholders at par for the group's senior unsecured notes (due in April 2026) or cancel other debt facilities. The group chose to approach current noteholders in September 2020 to seek exemption from this requirement in order to maintain the group’s liquidity. Majority consent was provided by the noteholders on 14 September 2020. The terms and conditions of the 2026 notes remain unchanged and the exemption has provided greater flexibility regarding future options for further capital management.

The company’s reduced leverage following the sale of the South American businesses, along with substantial undrawn facilities, cash on the balance sheet and capacity in the debtor securitisation facility also provides excellent liquidity to manage inherent industry volatility and withstand a range of scenarios.

Basis of preparation of selected Proforma financial information for 2 months ended 30 September 2019 (“Proforma”)

The Proforma financial information presented in this report has been measured using the accounting policies of the group in place at 1 August 2019. In this respect, the adoption of the revision to lease accounting as described in the 31 July 2020 annual report has been adopted. The information is presented on a continuing basis and adopts certain non-IFRS measures of the group, defined herein. The Proforma information does not provide information regarding material items or tax due to the inherent complications arising to reliably measure statutory measures on a continuing basis, at a point in time in a financial year that had not been subject to review or audit.

Reconciliation and definition of non-IFRS measures

The non-IFRS measures Underlying EBIT and Underlying EBITDA are used internally by management to assess business performance, make decisions on the allocation of resources and assess operational management. We believe Underlying EBIT and Underlying EBITDA provide useful information but should not be considered as an indication of, or an alternative to, profit/(loss) for the period, or as an alternative to cash flow as a measure of liquidity.

Underlying EBIT: earnings before net finance costs, taxation and material items.

Underlying EBITDA: Underlying EBIT before depreciation and amortisation.

Underlying SG&A: sales, marketing and distribution expenses plus general and administrative expenses and research and development expenses less material items.

Underlying net profit after tax: profit / (loss) attributable to Nufarm Limited equity holders less material items.

Net external interest expense: interest income less interest expense, debt establishment transaction costs, lease amortisation and finance charges as described in Note 10 of the annual report.

Net debt: total debt less cash and cash equivalents.

Net working capital: current trade and other receivables, non-current trade receivables/trade finance receivables, and inventories less current trade and other payables.

Average net working capital: net working capital measured at each month end as an average.

Underlying free cash flow: net cash from operating activities excluding material items less net cash from investing activities excluding material items.

Summary financial results (continuing operations)	2 months ended 30 Sep 2020 $000	12 months ended 31 Jul 2020 $000
Underlying EBITDA	(43,379)	235,767
add Depreciation and amortisation excluding material items	(35,436)	(201,412)
Underlying EBIT	(78,815)	34,355
Material items impacting operating profit	(6,862)	(248,670)
Operating profit	(85,677)	(214,315)

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Authorised for lodgement by:
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