Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Nufarm Half Year Results Briefing for 2021. At this time all participants are just in a listen only mode. After the presentation, there will be some time for a question-and-answer session today. To ask a question, you will just need to press star 1 on your telephone keypad. Just please be advised that today's call is being recorded.

But without further ado, I'll hand the conference over to our first speaker for today, Mr Greg Hunt, thank you and please go ahead, Greg.

Greg Hunt: Thank you, Myles, and good morning everyone. Welcome and thanks for joining us on the call today. Before we start today's presentation, I'd like to draw your attention to the disclaimer on page 2, particularly the section on forward-looking statements.

I'm joined here in Melbourne today with our new CFO, Paul Townsend, who joined Nufarm about midway through this reporting period, and Brent Zacharias who most of you would know is our Group Executive for Nuseed, and he's joining us from Canada to speak to the seed technologies results.

I'll start today's presentation with an overview of safety, and then an update on the impacts of COVID on our business during the period. Safety of course remains our most critical priority, and we've been working hard to sustain the record performance that we achieved last year. I'm pleased to report that a number of our operations reached significant safety milestones during the half.

Our Pipe Road facility here in Australia received a five-year unconditional operating licence, our operation in Merak, Indonesia, received an award from the Department of Labour for 10 years with zero incidents. A number of other sites are also approaching injury-free milestones, Raymond Road here in Melbourne, nearly eight years injury free. Alsip in Chicago, four years, Port Klang in Malaysia, three years, all injury free.

These are tangible examples of the progress that we are making in occupational and process safety management across our manufacturing sites. It is however fair to say that the prolonged disruption of COVID creates new challenges to maintain safety performance. We're adapting our approach to be more tailored to the specific circumstances and changing needs of individual sites to address these challenges.

In terms of the broader impact of COVID, our business has been very resilient, and I think the same can actually be said for the agriculture sector in general. However, we have not been immune to the virus, there have been a number of impacts on day-to-day operations. In terms of the financial performance during the half, the most significant impacts have been delayed supply, higher sea freight and logistics costs.

There's also been a substantial drop in demand for salmon, which has reduced demand and slowed sales of our Omega 3 Aquaterra product. On the other side of the ledger, we've generated savings in discretionary costs, such as travel and promotional activity were restricted.

We've also seen a return to normal levels of demand in our US turf and ornamental business, as movement restrictions eased in the latter part of the year. We also believe that COVID-related disruptions and supply risks have changed customer buying patterns. We are seeing sales locked in earlier than usual this year, and that is skewing our earnings more to the first half.

Now turning to the financial results. Our performance for the first half has been very strong, building on the momentum that we established in the second half of 2020. Better seasonal conditions and strong commodity prices are driving volume gains, and tight industry supply conditions are supporting a recovery in margins in some segments.

After two of the most challenging years that I've seen during my career in agriculture, I believe that we can now confidently say that the headwinds of the past two years are behind us. I'm pleased to say that Nufarm has emerged stronger, leaner and more determined to deliver on our objectives.

We have generated revenue growth in all regions and seed technologies, and a sharp improvement in EBITDA. Revenue is up 20% and underlying EBITDA is up 118% on the proforma comparative. This strong first half result provides a solid platform to deliver a meaningful earnings improvement for the full year.

As I mentioned earlier, we are expecting earnings to be more heavily skewed to the first half, and I'll discuss that more in the outlook. Our cash generation is improving, a step change in networking capital sees us back within our target range, and this along with higher earnings is improving cashflow.

Our balance sheet remains strong, Paul will speak to this in more detail shortly. Whilst the half year result is very positive and the outlook is encouraging, the Board is determined that the interim dividend will remain suspended. This slide, slide 6, provides a breakdown of the earnings recovery from the prior year. As you can see, we delivered revenue and earnings growth in all regions and seed technologies, with Australia and pleasingly Europe delivering the majority of the improvement.

In Australia, the breaking of the drought drove sales volume, margin and manufacturing overhead improvements. In Europe it was a combination of improved seasonal conditions, lower input costs and rejudged SG&A costs that delivered the earnings recovery. Seed technologies also delivered double digit growth, with a strong performance from the base seed portfolio, due to the better seasonal conditions, particularly in Australia.

North America delivered a strong half, relative to the general market, however this improvement has been mased somewhat by the impact of currency translation due to a higher Australian dollar. So, we are delivering growth across all regions and I will expand on this more in more detail later in the presentation.

Let me now hand over to Paul to discuss the financial details in more detail.

Paul Townsend: Thanks, Greg, and good morning everyone. Just turning to slide 8. Before we get started today, I'd like to remind you that due to the change in our financial year end, a lot of the comparative numbers we'll be discussion are proforma numbers. You'll find a more detailed analysis performance relative to statutory comparative period in the materials lodged with the ASX this morning.

I'd also draw your attention to the fact that we've made sales of $76 million and zero margin to Sumitomo, Latin America, under the transitional supply agreement, and where appropriate, the impact of this has been excluded in our commentary and figures. As Greg outlined, it's been a strong, very strong first half.

Seasonal conditions have lifted revenues and earnings in all regions and seed technologies. The performance improvement program has delivered the full cast cost savings and better working capital management is lifting cash generation.

We have seen a significant reduction in net debt and leverage, and this has flowed through to a significant reduction in financing costs. We expect external interest costs for the full year to be around $55 million to $60 million. This is lower than previous guidance due to lower net debt expectations and currency benefits on our US to nominated financing costs.

Foreign currency exchange losses have also reduced on the prior half, which was impacted by COVID related currency volatility. Depreciation and amortisation for the period was $103 million, and we expect depreciation and amortisation for the full year to be approximately $210 million. This is assuming an Australian dollar/US dollar exchange rate of $0.76.

This is slightly lower than our previous guidance due to positive currency translation. Our effective tax rate of circa 40% reflects that we have not booked tax losses in certain countries in Europe. We expect the effective tax rate will be higher still for the full year, mostly due to the skew in earnings first half.

These tax losses do remain available to the Group for use in future periods, however they are not recognised on the balance sheet.

Importantly, full year NPAT is expected to be lower than first half NPAT, due to EBITDA searching skews of the first have and the increasing effective tax rate. While we have a much stronger balance sheet and our cash generation is improving, directors have determined that an interim dividend will not be paid.

We want to continue to ensure that we manage the balance sheet to create value for our shareholders, and a review of the principles that guide the Company's approach to capital management will be finalised prior to announcing the full year result.

Now turning to slide 9. The performance improvement program that we extended from the ANZ business around this time last year has generated benefits from sustainable cost reduction projects of around $10 million in the half. We're on track to deliver the $25 million run rate in SG&A benefits by the end of this financial year, and $35 million to $40 million by the end of next financial year, with the expected benefits associated with the closure of the 2,4-D plant in Linz and of the Pipe Road insecticide and fungicide facility.

Overall, SG&A expenses reduced by $24.5 million. There is a significant currency translation benefit included in that comparison of around $15 million, and there is also some impact of lower costs due to COVID-19 restrictions which have limited discretionary expenditure in areas like travel, advertising and promotion.

The reduction in these discretionary costs have effectively offset the impact of increased freight and logistic costs arising from headwinds linked to COVID-19 and increased volumes. Research and development costs increased $4 million in the half. While we spent a comparatively small amount on R&D, around $20 million for the half, we are leveraging our improved financial capacity to begin to modestly increase this investment.

A number of early-stage projects are already underway with research institutions, including the CSIRO, University of Queensland and University of Liverpool in the UK. These joint projects are still mostly in laboratory and glasshouse testing phase, and our financial commitment remains modest. However, we view this investment as an important element in our future growth.

Now turning to slide 10. Nufarm operates in a very working capital intense industry, so active management of net working capital is very important being able to deliver acceptable returns to shareholders. Most of you will be aware that our ability to manage networking capital more efficiently, is typically the largest contributor to additional cash generation.

Through 2019 into 2020, poor seasonal conditions particularly in Australia and interrupted supply chains in Europe, led to a build-up of working capital in the balance sheet. Over the past six to 12 months we've seen a significant unwind in this position, and you can see from the chart on the right that average net working capital the sales is now back within our targeted position of 35% to 40%, and we expect it to remain this range for the full year.

However, the chart on the left also shows that net working capital was a net cash outflow for the Company during the first half, which is consistent with our traditional trading pattern where we build inventories and receivables in the first half. We don't have a proforma comparative cashflow statement for the prior year, however it is pleasing that we are able to show a positive operating cashflow for the first half, notwithstanding the traditional build in working capital.

Capital expenditure during the first half was down considerably at $54 million. This is broken down as approximately $15 million on property plant and equipment, and $30 million on tangibles, which is principally investment in crop protection and seeds. The property, plant and equipment spend is down on plan, principally due to deferral of spend at Wyke, which will be commenced in the second half.

We do expect CapEx will be weighted to the second half this year, however it is likely that we will not spend all of the $180 million we have previously forecast for this year.

Now turning to the balance sheet on slide 11. As you can see, there has been a significant step change in debt and leverage following the sale of our South American businesses on 1 April last year. Leverage is at 1.4 times EBITDA on a rolling 12-month basis and is lower than our core leverage target of 1.5 to 2 times, which includes leases.

We're conducting a review of our capital structure with a view to assessing its cost efficiency and flexibility. Any refinancing activity arising from this review is likely to take place post year end results, subject to market conditions. The Company maintains very strong liquidity, with undrawn facilities at half year end of around $580 million and cash balances of approximately $500 million respectively. This places the business in a very robust position going forward.

I'll hand you back to Greg who'll provide you with some further detail on the performance in the regions.

Greg Hunt: Thanks, Paul. Well leading off with the APAC region, the region delivered a very strong first half. Seasonal conditions, as most of you would know, transition from extremely dry, drought conditions to be very positive over the last 12 months. We've completed a lot of restructuring in this region over the past five years, and this work has allowed us to leverage the improved conditions.

Revenue for the first half was up 24% and EBITDA was up 107% to $68 million. The revenue growth was mostly volume driven, with drought breaking rain in Australia and Indonesia driving demand. Higher commodity prices and tight industry supply conditions have also created early demand for winter cropping products.

Our business in Australia and New Zealand were the major beneficiaries of the improved conditions. They generated revenue growth of 30% and an EBITDA increased 183% to $49 million. The earnings growth reflects a recovery in gross profit margins relative to a very drought impacted result in 2019 and 2020.

Our business in Asia also posted a much stronger EBITDA result, up 24%, despite unfavourable currency movements. Increased volumes in Indonesia and reduced SG&A costs were the main drivers of growth. Whilst the outlook for the APAC region is positive for the second half, we believe our earnings are likely to be quite heavily skewed to the first half due to the strong early demand for product, particularly in Australia.

Moving now to Europe. As most of you will be aware, Europe has been a priority focus for us. At the time of our full year results, we said we believed we'd reached an earnings trough, and this result shows we've started to put the headwinds behind us. You can see from the slide that in local currency, revenues are up 18% and EBITDA is up 135% to €79 million, around A$117 million.

The drivers of the improvement are volume growth, lower raw material prices for insecticides and fungicides, better conversion costs and lower SG&A. We're generating higher sales from the acquired portfolios, which is contributing to an improved product mix. Whilst it's getting more difficult to split the earnings of these portfolios from the rest of the business, we estimate that they contributed more than half of the earnings in this period.

We've also seen volume growth from improved seasonal conditions, particularly in German, the UK and Eastern Europe, which were quite badly impacted last year. Raw material costs for a range of insecticides and fungicides in our portfolio have returned to more normal levels, and this benefit is flowing through to margins.

You might recall that our regional general manager for Europe, Hildo Brilleman, announced some targets for the performance improvement program in Europe at the full year result. I'm pleased to say that he is delivering on those plans, with an estimated $7 million in Australian dollar savings during the half, putting the region on track to achieve full year benefits of A$15 million for the full year.

Like Australia, we are expecting full year earnings in Europe to be more weighted to the first half, with many of our customers having bought forward demand to ensure product supply given the disruptions created by COVID. Over to North America, the stronger Australian dollar had a large impact on the reported results in North America.

The chart on this slide shows earnings in US dollars, and you can see that we grew the top line by 14% and delivered a 32% increase in EBITDA, which was certainly a pleasing result. Top line growth has come from higher volumes right across the region. The turf and ornamental business also returned to more normal volumes with COVID restrictions easing.

Whilst we are seeing good demand, we're also seeing a lot of competition in the crop protection segment in North America. External supply chains have been challenging, with the combined impact of the February freeze and COVID disruptions making it difficult for the entire industry to get product to customers.

The feedback from our customers suggests that we are faring quite well, however we are having to absorb some increases in showing and distribution costs, mostly due to how rapidly these costs have risen. We have offset this to some extent through savings and discretionary spending due to COVID related restrictions, and this is has helped to deliver the earnings improvement.

Seasonal conditions have been generally positive in April and May, although we are calling it a little dry in Western Canada at the moment. We expect earnings will remain second half weighted in North America this year.

Let me now pass over to Brent to address the results in the seed technology segment, thanks Brent.

Brent Zacharias: Thanks, Greg, and good morning everyone. Revenues in the seed technology segment were up by 37% on the March comparative period, and EBIT of $37 million was well up on the $17 million generated in the same six months of last year. The key drivers of improved performance were increased sales of our hybrid seeds and higher end point royalties relating to the FY20 sales of hybrid canola in Australia. Seed treatment sales were also up.

We're seeing the benefit of investment in our pipeline with recent year launches of better performing canola, sorghum and sunflower hybrids, securing strong grower support. Our share of the canola market in Australia continues to strengthen, and we saw good gains in sorghum and sunflower segments in both the USA and South America.

COVID-related logistics challenges negatively impacted our European business within the period. With the change in reporting periods, it is important to note that the majority of sales relating to our core seeds portfolio will occur in the first half. Nuseed's carinata program continues to develop very positively, despite some tough seasonal growing conditions in Argentina, we've successfully scaled up production, gaining more interest and support from local growers to use carinata as a cover crop and share the downstream benefits of its potential as a non-food biofuel feedstock.

There is substantial interest from offtake customers with our current arrangements with Saipol ensuring we have a market for current and near-term future production volumes. For the second consecutive year Nuseed carinata has been verified as being a best in class for greenhouse gas reduction.

Moving now to our Omega 3 canola platform. After a successful commercial launch of Aquaterra to Chilean aquiculture customers, COVID-19 intervened with a resulting dramatic impact on salmon demand, particularly in the US market, where restaurant businesses dropped sharply.

This has reduced demand for Aquaterra, along with other fish feed inputs and has slowed our volume growth. Given these impacts, we now do not expect to post an EBITDA positive contribution from Omega 3 canola during this current financial year. Importantly, customer feedback relating to their use experience with Aquaterra has been very positive, and we have seen additional customers place orders over the period.

This gives us strong confidence that we will see demand build steadily as the market recovers. We currently have sufficient stock to satisfy our demand forecast for the coming year, and we have decided that we will pause commercial planting this year while end market conditions improve.

On a positive note, the first human clinical trial of a plant-based source of Omega 3 was completed during the first half, demonstrating that our product Nutriterra is safe and significantly improves levels of Omega 3 in humans. Results from the trial indicated that the participants taking Nutriterra, Omega 3 dietary supplements readily absorbed the oil's long chain Omega 3s, including DHA and EPA and short chain ALA, which were incorporated into blood lipids, including red blood cells.

These results are supporting our commercialisation plans for Nutriterra and we're seeing an encouraging level of industry interest.

I'll now hand back to Greg.

Greg Hunt: Thanks, Brent, I'd just like to reinforce our view that the short term COVID impact on demand for Aquaterra doesn't in any way diminish our confidence in the long-term value drivers for this technology. So, before I move to the outlook for the full year, let me recap on our priorities.

Our strategy remains unchanged, improving cash generation and return continues to be the financial priority. We are growing volumes to build our scale and global footprint, we are improving margins by broadening our portfolio and product mix, investing in the efficiency of our supply chain and reducing our cost base.

With the sale of the South American operations, we have refocused our business on the regions where we believe that we can generate the best cashflows. Ultimately, we are focused on improving returns. Higher earnings from our existing asset base will improve returns in the short term and a disciplined approach to new investment will improve future returns.

Now to the outlook for the full year. From an industry perspective we are seeing positive dynamics in the Ag sector. Crop prices are strong and relatively low end used stocks for key commodities is supporting grower confidence. Spending on crop inputs is robust. Nufarm will be the beneficiary of these dynamics. We are generating growth over and above the market by taking share in some of the segments on which we are focused.

Our performance improvement program is delivering additional benefits, and this gives us some freeboard to absorb unexpected headwinds. We are building a much stronger base to support the earnings recovery in Europe. We've a more efficient cost base, we are improving our supply chain efficiency, and we have good support from customers for our differentiated higher value products.

We are delivering leverage from the better seasonal conditions in particularly Australia, and our market share in North America continues to grow, and we are expecting a good second half in that region, subject to supply conditions not materially deteriorating. With the change in our financial year end, the seeds business now delivers the bulk of its earnings in the first half.

We've already locked in good growth and the slowing of the ramp up in Omega 3 is not expected to have a material impact on earnings this year. We have delivered a step change in our net working capital performance to sales ratio in this half, and we would expect to hold within the range or our target range of 35% to 40% for the full year.

We remain very focused on our key objectives for growing volumes and revenue, improving margins, generating more cash and delivering stronger returns for shareholders. In summary, we have delivered a very strong first half result. Momentum continues to be positive in April and May, however we have not altered our expectations for the full year outlook as we believe earnings will be significantly weighted to the first half.

So, Myles, I'll hand back to you to take some questions.

Operator: Thank you. Ladies and gentlemen we'll now begin that Q&A session. Once again, if you'd like to ask a question, you can just press star 1 on your telephone and then just wait for your name to be announced. But our first question today just comes from the line of Grant Saligari from Credit Suisse, so please ask your question, Grant.

Grant Saligari: (Credit Suisse, Analyst) Good morning and thanks for the opportunity. If I could ask two questions, please Greg? I guess really trying to understand the outlook statement that you've given and the context for what appears to be a really strong first half result. Not just on the face value numbers but on some of the underlying improvements that you've quoted.

So, if I can just put a couple of things to you. If I go back to your six months to 30 September 2020, which is a proforma number, you generated an EBITDA of $138 million. Your comment of an NPAT loss in the second half or that NPAT for the full year would be likely below the first half, sort of implies that your EBITDA for the second half is not going to be much better than that PCP figure.

That's hard to understand with the extended improvements you've put through the business. So, I was just wondering whether you could in that context give us some better understanding of the pull forward of revenue that you might have seen, or some other mitigating factors, some other offsets that you are anticipating could be coming through in the second half please?

Grant Hunt: Thanks for the question, Grant. I just need to be clear that we are not giving guidance. As I said our expectation for the full year hasn't changed, we are very heavily weighted to the first half. I might let Paul try and answer your questions that go to the heart of the NPAT for the second half.

Paul Townsend: So, broadly the reason why we've made that statement is that if you have a look at what the D&A if you like outlook is for the full year, which I provided, and also the full year outlook for interest, if you look at those two numbers in the second half, so you've effectively got $100 million of depreciation and amortisation coming through the second half and it's caught circa $30 million of interest costs, that's $130 million.

Plus you've also got an increasing effective tax rate, and the reason for that is because the earnings being skewed to the first half in Europe, means that the losses you have in the first half are increased in the second half because of the D&A and interest charge in that second half.

So, that gives rise to a higher effective tax rate, so those two things lead to - and when you take in our expectations of what full year outlook is, take into if you like we'll come to the end result that you end up with an NPAT loss for the second half.

Greg Hunt: Maybe Grant, if I can probably just help a little there on Europe. It looks like quite a strong, well it is quite a strong first half result when you look at the information we've given you on slide 14. There's certainly been some benefit from channel restocking in Europe, it's hard to measure.

However, there are higher volumes, and that's reflected with the better seasonal conditions. We've certainly got a better product mix, which is impacting on our earnings from the acquired portfolio. Better recoveries in the plants and the benefit of lower raw material costs, particularly in those key fungicide products that we called out previously. You've got the benefit of the $7 million reduction in performance improvement costs.

You also, I'm sure, would recognise that we've got a one-off benefit on the German rebate, which I think from memory was about $9 million. But I think one of the key impacts really was the seasonal conditions last year, and I think one way to think about what we're seeing from a seasonal point of view in Europe today is it's probably more like what we experienced in financial year '19.

Grant Saligari: (Credit Suisse, Analyst) Could I ask a second question? Just one clarification, your comment on the tax suggests like I can't understand that because if I had a - working backwards from your numbers, if you had a PVT of zero let's say, presumably it doesn't matter what the tax rate is, there's no further deduction at the tax expense side. So, I find that a bit hard to understand in your comments on the tax impact.

I guess a question on tax is what's happening in Europe that there are stranded tax credits there that you can't utilise? Given the strong results you now reported through Europe. You've indicated they're actually prior period tax losses that you can't claim, it would be good to get a bit of clarification on that please?

Paul Townsend: Short of taking you through the maps and tax laws in Europe on how that works, all I'll say is that if you've got a - if your earnings - just think about this. If you have more earnings in the first half relative the second half, yet this is before - this is EBITDA, before depreciation, amortisation and interest, yet your depreciation, amortisation and interest are more evenly spread, you're going to have a skew.

So, therefore if you've got a - let's just say if you've got a small loss in the first half, that loss will get bigger in the second half. Therefore you cannot record that loss and take it to, if you like take it as a credit, because the loss is not able to be recognised. So, that's why you've got an increase in the loss relative to the first half.

Why are losses stranded? We're trying to plan as efficiently as our can our tax position, however there's obviously transfer pricing rules that we need to adhere to. One of the things that we are doing is that for example one of the upsides that we see, wherever we see improvement is that for example we've closed the Linz facility, we've announced the closure of the 2,4-D facility in Linz.

Which means that because of the competitiveness, and which means that Linz, Austria, sorry Linz, which is in obviously Austria, we believe that those tax losses will reverse because we won't be having the uncompetitive position, so that's one reason. The other reason's in Germany, whereby - and this is a good thing and a negative thing in one way. The good thing or the positive is that on the acquisition of Century and Surf, we were able to get an outright deduction, albeit over many years for the purchase price.

So, from a tax planning perspective, what we're able to do is write off the whole acquisition price. But what that does, it actually puts Germany into a loss position as Europe continues to improve. So, that in itself leads to a loss that cannot be recognised, albeit that that loss can be used for carry forward for future years as Europe improves and Germany improves.

So, they're a couple of reasons why the losses are what they are and what our future view is of the recoverability.

Grant Saligari: (Credit Suisse, Analyst) Okay, well I should let someone else ask questions, so thank you for your help.

Operator: Your next question comes from the line of Richard Johnson from Jefferies, so please ask your question, Richard.

Richard Johnson: (Jefferies, Analyst) Thank you very much. Greg, can I just start with a question around your supply chain arrangements and just get a sense of how comfortable you feel about all of those given how tight markets are? In particular, if you had the current market conditions that you're enjoying at the moment a year ago, would have you made the same footprint, manufacturing footprint changes that you're undertaking at the moment?

Greg Hunt: Richard, the short answer is yes. Because I mean the main change was 2,4-D in Europe, so we produced circa 12,000 tonnes from that plant, the Europe market's about 3000 tonnes. We were really exporting into the Americas from Linz, and that's really not the base to do it from.

The insecticide, fungicide's operation here in Australia, we can - the cost to produce either directly from China or our operations in Indonesia and Malaysia are significantly under what they are in Australia. So, the short answer is it wouldn't have changed the decisions that we made.

Richard Johnson: (Jefferies, Analyst) Got it, thanks, that's very helpful. Then am I right in thinking that your comments around the top line growth is in mainly volume rather than price driven? I'd just be interested to get your views on what you think industry pricing's doing at the moment, particularly once again given how tight markets are?

Greg Hunt: It is mainly volume; we are seeing some price increases here in Australia because it's been relatively tight. But again the majority of it is volume related.

Richard Johnson: (Jefferies, Analyst) Then when I think about your budgetary process, has a change in the year end made it a bit more complex for you internally or has it made no difference at all? I'm just trying to get a sense of whether the way you think about the future, you've got to get into the right rhythm still, in the same way that we have to.

Paul Townsend: I think like any budget process…

Greg Hunt: It's never easy is it.

Paul Townsend: You just bring forward the timing of it, just doesn't change the process, it just changes the timing of it.

Richard Johnson: (Jefferies, Analyst) While I've got you, Paul, can you talk a little about the cash tax? How shall we think about that going forward?

Paul Townsend: The cash tax, we expect to pay a bit more in the second half versus the first half, I think the first half is about $10 million, we're forecasting around about $25 million to $30 million. But that also excludes that there are some tidy up taxes associated with the LATAM sale of about $5 million that we're also paying in the second half.

So, our cash tax outflow will be around $25 million higher in the second half. So, but prior to that it's going to be as I said tidy up of cash taxes associated with the LATAM sale.

Richard Johnson: (Jefferies, Analyst) That's super helpful thanks. Then just finally on tax, sorry to harp on about this. How do we think about the tax rate beyond this year? I mean how confident are you, you can get it down?

Paul Townsend: I think as I alluded to, I'm going to get lots and lots of questions on this, on the effective tax rate, so I'm all prepared for that. I think as I said earlier, with Europe's performance improving, you're going to find that the European tax, the tax losses in Europe will start to diminish, which means that the effective tax rate will come down.

We expect it to be - to come down a bit next year but not to normalise for another year or so. But certainly it's in our sights to try and work out as best we can to get it down to a more normalised position.

Richard Johnson: (Jefferies, Analyst) Great thanks, and then the last one from me, I don't know if Brent's still there, I'd just be curious to know what fish oil prices have been doing recently, given his comments on demand.

Brent Zacharias: Hi Richard, how are you doing? Fish oil prices have actually been relatively stable. As you know it relates to what is the demand and also what is the supply, so recently there has been a relatively large quota announced for the Peruvian catch, so they're just out conducting that now, and really, I think we'll need to wait and see another two or three months to see what the supply side looks like from that catch.

Then on the demand side, I would add that we've seen more dramatic impact in the Chilean market, whereas the Norwegian market has probably fared a little better in terms of the aquiculture salmon business. I think we're going to see what we're forecasting to be a fairly normalised year in terms of fish oil pricing. We don't anticipate that we'll see a lot of volatility in it unless they have any problems with the catch.

Richard Johnson: (Jefferies, Analyst) Fabulous, thanks very much, that's it from me, thank you.

Greg Hunt: Thanks, Richard.

Operator: Your next question comes from the line of Alex Karpos from Goldman Sachs, please ask your question, Alex.

Alex Karpos: (Goldman Sachs, Analyst) All right team, good morning, can you hear me?

Greg Hunt: Yes, loud and clear thank you.

Alex Karpos: (Goldman Sachs, Analyst) Perfect, a couple on my end. First if we can dive into Europe a bit. Two-parter here but just wanted to get some more colour on one, the cost-out program on your side. You've talked about you said it's going according to plan, but any more incremental insights you can give on that as well as timing into next year?

Secondly on the supply chain, when we think about the headwinds you've had in past years, getting ingredients out of China, all the high prices on those ingredients, where do we stand today versus what you would call more normalised prices for those? What's the outlook look like for the rest of the year?

Greg Hunt: Let me tackle the first, or sorry the second piece first and then Paul can do the performance improvement program. As most of you would be aware, we had fairly significant impacts on the cost of goods on some of the key products in the portfolio that we acquired, which is more generally from what's known as the China blue sky program.

Which frankly in the long-term it is a good thing for the industry, but more specifically on the explosion that was I think from memory about 18 months ago that closed the plant. Now that we're seeing those operations come back online, we've seen, continued to see, I think we gave some information back at the full year, we've continued to see the cogs on those key fungicide and insecticide raw materials continue to come down.

I wouldn't expect to see that reverse. The question for us then is how much of that value do we hold? Paul, do you want to cover the?

Paul Townsend: Yes, in terms of the performance improvement program, and I think we indicated on slide 9 that for Europe in the half we'd achieved $7 million savings. We expect from a run rate perspective for that to be at the $15 million for the full year. So, Europe if you like in accordance is right in line with our targets we've indicated, so that's about a $15 million run rate that we're at.

In terms of the other SG&A benefits, again we expect to be at the full run rate of $25 million that we've indicated by the end of FY21 as well. So, we won't expect to achieve $25 million in total, but we expect to be at that full run rate. Now that of course excludes COVID. Now the COVID impact we've called out is about $10 million in this first half.

Now those, we're expecting some of that to come back in the second half, but certainly we'll bank some of that, but we're excluding the COVID-related costs out of our underlying SG&A improvement. So, I just wanted to reinforce that, we're excluding the COVID savings out of our underlying SG&A improvement, which we're saying is $25 million run rate by the end of this year, which is consistent with what we've said.

For the 2,4-D synthesis closure that we'd called out, we expect that to start to materialise into the next financial year. We're running down stock for the remainder of this year so we don't expect to achieve any of those benefits until the next financial year, which we said that we'd - which would be delivered in FY22.

Similarly with the Raymond Road closure, we expect to be out of Raymond Road by the end of this year, and the benefits to be flowing through in FY22 as well.

Alex Karpos: (Goldman Sachs, Analyst) Thanks, and on those $10 million of COVID impacts, in line if I'm reading the slides correctly, is it fair to say most of those are North America?

Paul Townsend: No, the COVID savings were across the board, but the COVID impacts in terms of what offset them, yes, they are, they are a bit of - freight and logistics were heavily impacted in North America.

Alex Karpos: (Goldman Sachs, Analyst) Got it, so that $10 million is the savings from discretionary travel and the like, is that right?

Paul Townsend: Yes, so the way to think of it is $10 million of discretionary COVID savings were offset by increase in freight and logistics, volume-related as well as COVID-related and most of the freight impacts that were offset, that offset the COVID savings were in North America because of just the supply chain disruptions and freight rate increases.

Alex Karpos: (Goldman Sachs, Analyst) Got it, so I believe the wording from the slides is those $10 million of savings were partially offset? So, how should we be thinking about the quantum of actual COVID expense step ups around logistics, freight, et cetera?

Paul Townsend: We don't know because we just - we're not commenting on that or estimating, just because of the vagaries of the supply chain and how it's running at the moment.

Alex Karpos: (Goldman Sachs, Analyst) Okay got it, and one more quick one. On capital management you said you're reviewing that, hope to have a decision this year. Any early thoughts on what that could look like?

Greg Hunt: The early thoughts are really just about having some principles around leverage, so which we've spoken about, but I want to retest leverage. We'll look at capital allocation in terms of CapEx allocation principles, in terms of for growth CapEx and return targets et cetera. As well as then to have a real focus on free cashflow generation and to the extent that we have excess cash available, how that's going to be returned to shareholders and looking at different mechanisms.

Obviously looking at dividend policy, looking at share buy backs, those sorts of things. But they're the things that - the typical things you obviously look at, but those sorts of principles we expect to provide some more colour on at the full year results.

Alex Karpos: (Goldman Sachs, Analyst) Thanks, that's it from me.

Operator: Your next question comes from the line of Alex Paton from Citi, please ask your question, Alex.

Alex Paton: (Citi, Analyst) Good morning guys. A number of your peers have called out increasing technical ingredient costs. I know the fungicide and the insecticide costs are looking pretty good, but on the herbicide side of things a number of them are saying it's a net cost headwind this year. Can you maybe provide some colour in what you're seeing on your end and whether you expect to be able to fully pass through any cost inflation you might see this year?

Greg Hunt: That largely impacts North America and Australia. We were not able to pass through some of the early price rises, but certainly in March and April in North America we have been able to pass those on. As I said earlier, in Australia we've been able to pass those on. But you're right, it is fundamentally around the three or four major herbicide products that are largely coming out of China.

Alex Paton: (Citi, Analyst) Got it, and based on your industry contacts, you expect that to be resolved any time soon this year? Just making sure you're not stuck with any high-cost inventory?

Greg Hunt: Yes, I think channel stocks generally in Australia and North America, for those key herbicide products have been quite low. So, it hasn't been too difficult to pass on, so you've got channel inventory's low, fairly tight supply coming out of China. So, I think the risk of getting caught, if you can put it that way, with a large volume of inventory of those products I think is remote.

I think the other thing of course that works in our favour is that those products, you can use pretty much throughout the year. Whereas insecticides and fungicides are obviously only used when they're needed. So, the stock turns on those higher volume commodity products are a lot higher.

Alex Paton: (Citi, Analyst) Right, thank you, and just one more on the regulatory phase out of products in Europe. It looks like you've got a little bit of a benefit from the final sales of those products like Bromoxynil. How much in earnings will you use there going forward from the phasing out of these products?

Greg Hunt: Well with Bromoxynil, I think from memory is probably about around €8 million. The other one I think is [beta-cyfluthrin], that's a couple. But we have in the case of Bromoxynil, we have other herbicide products substitutes, and with beta-cyfluthrin, which is an insecticide, one of the products that we acquired with the portfolio, acetamiprid is pretty much a direct substitute.

So, looking forward certainly for this year and the next couple of years, a relatively small impact. I think most would be aware that the European Union have released a strategy document from the European Commission that makes some statements about the intent around sustainable food production.

In particular it has some targets for reduction in pesticide use and it has some targets for an increase in organic farming. I think our response would be consistent with the European Crop Protection Association, which is we're all going to back sustainable agriculture. However I think any initiatives need to be science-based and supported by a balance of regulatory environment.

So, where it's challenging, I mean we know the products that are at risk, and I think what I would say is that whilst there are some challenges, there are also some opportunities for us. Certainly some of the products that we acquired will fit nicely to substitute, if I can put it that way, some of the products in our legacy portfolio that are at risk.

Alex Paton: (Citi, Analyst) Great, that's very clear thank you, that's all from me.

Operator: Your next question comes from Jonathan Snape from Bell Potter Securities, please ask your question, Jonathan.

Jonathan Snape: (Bell Potter Securities, Analyst) Hi, can you hear me okay?

Greg Hunt: Yes, loud and clear thanks Jonathan.

Jonathan Snape: (Bell Potter Securities, Analyst) Thanks, Greg. Just one question to start and then another one which is a bit more detail on the balance sheet. I just wanted to make sure I heard correctly there that the phase out of those products in Europe, did that contribute €10 million? So what, that'd be about A$15 million to the first half EBITDA, did it?

Greg Hunt: No, those phase outs are over the next two years.

Jonathan Snape: (Bell Potter Securities, Analyst) Okay, so there's a comment I think in there that you got some benefit from phase out of products generating a higher result, is a kind of a one off I think on your slide deck.

Greg Hunt: Yes, I understand what you, yes.

Jonathan Snape: (Bell Potter Securities, Analyst) Was that material or was it low single digit kind of…

Greg Hunt: It's a pretty slight bump in revenue, Jonathan.

Jonathan Snape: (Bell Potter Securities, Analyst) Okay great, and I'll just run through a little bit more detail, or granular, so I'll kind of try and keep it simple. But if I flick to your segment notes, in particular segment note 16 on page 29 of the annual report. I'm looking at this trade finance comment that you've got here around trade payable.

I'm trying to figure out, that $238 million that you've drawn down, that's effectively a factored payable, is that the way I should be looking at it? That effectively you've been given extended credit terms?

Greg Hunt: It's a receivables financing facility, so all it is, is that we're basically getting - we're able to securitise the receivable earlier than what they'd normally pay in terms, so that's all it is.

Jonathan Snape: (Bell Potter Securities, Analyst) So, at $238 million, which was I think $198 million last time, it's about a $40 million bump in the half, which would have benefited your cashflow?

Greg Hunt: Yes, that's right, you've also got increased sales as well.

Jonathan Snape: (Bell Potter Securities, Analyst) Yes, okay and if I went back and looked in that January number, I think it's $232 million but ex Latin America, I think in the accounts it was like $80 million a year ago, so it's been quite a big drawdown. When you're looking at your average networking capital sales numbers and when you're looking at where you think debt's going to [land] at year-end, are you anticipating a further drawdown on that facility? Or does it come into your thinking around how you're going to plan?

Greg Hunt: It all depends on the sales. As sales increases, we look to increase the facility we'll increase naturally for those eligible receivables.

Jonathan Snape: (Bell Potter Securities, Analyst) Okay, all right, great thank you.

Greg Hunt: It's a very cost-effective financing.

Jonathan Snape: (Bell Potter Securities, Analyst) No, I understand that, it's just from the outside given all the things we've seen in these off-balance sheet facilities, I mean you've got a $250 million [hybrid], you've got $230 million of pull forward in there. It's almost like they're synthetic debt facilities are as big as the Group debt facility these days.

I think when you're talking about capital management, I'm trying to figure out how you're thinking around the total balance sheet financing at Nufarm going forward?

Greg Hunt: Yes, so just got more cash than debt just now.

Jonathan Snape: (Bell Potter Securities, Analyst) Yes, all right.

Operator: We have another question in queue, just from the line of Brook Campbell from JPMorgan, please ask your question, Brook.

Brook Campbell: (JPMorgan, Analyst) Thanks for taking my question, just back on Europe, just curious if you could outline which countries in Europe that you're making a loss on at the moment and if you're able to provide potentially quantify what that level of loss was in the first half?

Greg Hunt: It's tax loss.

Brook Campbell: (JPMorgan, Analyst) Right, okay, so there's no countries in Europe that you're making an operating earnings off?

Greg Hunt: Look prefer to take these sorts of questions offline in detail.

Brook Campbell: (JPMorgan, Analyst) Okay, all right well I'll catch up later then.

Operator: We have another question in queue, I'll quickly go to James Ferrier from Wilsons, please ask your question, James.

James Ferrier: (Wilsons, Analyst) Hi guys, thanks for your time.

Greg Hunt: Hey James.

James Ferrier: (Wilsons, Analyst) Just following on from Jono's question there on the debt facilities, the securitised debtors that you do have, they're on balance sheet or are they off balance sheet?

Greg Hunt: They're off-balance sheet.

James Ferrier: (Wilsons, Analyst) So, the balance of debtors that's sitting on the balance sheet excludes those you have securitised?

Greg Hunt: Yes.

James Ferrier: (Wilsons, Analyst) Okay, and then similarly for the trade finance facility on the payables, for the payables that you have trade financed, they're off-balance sheet, correct?

Greg Hunt: That's correct, yes.

James Ferrier: (Wilsons, Analyst) Okay, great. Question about the transitionary supply arrangements you have with Sumitomo in LATAM. Just remind me how long that arrangement extends for and if you've had any discussions with your suppliers around what arrangements and if your arrangements might change post that agreement?

Greg Hunt: So, James, it relates fundamentally to two products, 2,4-D and imidacloprid. I think the TSA from memory concludes 31 March 2022. After that period, I mean Sumitomo can go to the market and buy those products if they can. In relation to 2,4-D the registrations, not all of them but - and I'm not sure that it's a majority, but certainly a significant part of the registrations are linked to Nufarm sites. So, I think we would continue to see supplying Sumitomo particularly with the 2,4-D.

James Ferrier: (Wilsons, Analyst) I see, so even though you don't own those assets anymore, the registrations have Nufarm's name on them and so you've essentially got to be involved in the procurement of actives and the distribution of it?

Greg Hunt: That's correct. I think the other thing I would say, the relationship with Sumitomo is quite strong and the reality is that we are buying products like that globally. It has been our experience when we centralised or our procurement has become more centre-led, is that typically you will procure better if you amalgamate your volumes.

I would suspect that that will be the outcome in the discussions that we have with Sumitomo at the conclusion of the TSA. But at the end of the day, ultimately it will be their choice.

Operator: We have one final question just from the line of Evan from UBS, so please ask your question, Evan.

Evan Karatzas: (UBS, Analyst) Morning all, just want to dive into this Europe a little bit further. That EBITDA margin you delivered of 25%, it's actually the highest margin you've probably ever done in Europe. You've talked to a couple of outliers there and that margin's obviously been pretty impacted by weather over the past few years. I'm just curious what are you saying or thinking as a normalised level of margin for Europe in a go forward and that 2H as well?

Greg Hunt: I think Evan, you're right, if you take EBITDA margins for the half at 25%, clearly '20 was impacted by seasonal conditions and a number of other issues. So, the real comparator is to go back to '18 and '19, so you're really seeing a 300 to 400 basis point improvement over that period. That is largely coming from the acquired portfolio.

Evan Karatzas: (UBS, Analyst) Okay, great, that's really helpful. Thanks guys.

Operator: With that there's no further questions, so I'll hand the conference back to our presenters, thank you.

Greg Hunt: Thanks, Myles. Thank you to everyone on the line for joining today. Just to recap, we've certainly announced what has been a strong result. You can certainly see from the result that the hard work that we've done over the past few years is giving us good leverage to improved conditions.

It's certainly pleasing to be able to announce such a strong result, and I look forward to speaking with a number of you over the next few days and again at our full year result, so thank you all.

Operator: Ladies and gentlemen that does conclude today's conference call. So once again, thank you all for participating today, but you may now all disconnect.

End of Transcript