

# 2010 Full Year Results

September, 2010



# **Doug Rathbone**

## **Managing Director**



# 2010 Full Year results



## Major impacts

- **Glyphosate-related write-downs and margin pressure**
- **Adverse climatic conditions**
- **Strong competition and weak pricing environment**

## Headline results

	<b>2010</b> 12 mths to July 31	2009 12 mths to July 31
<b>Group revenues</b>	<b>\$2.17 billion</b>	\$2.68 billion
<b>Reported profit/ (loss)</b>	<b>(\$22.6 million)</b>	\$79.9 million
<b>Operating EBIT</b> (pre material items)	<b>\$135 million</b>	\$278 million
<b>Earnings per share</b>	<b>(15 cents)</b>	33.5 cents

## Overview

- **Glyphosate-related impacts continued into 2010 financial year with additional pricing pressure and oversupply issues resulting in further write-downs and margin loss.....but signs of stability are emerging**
  - Nufarm took measures to support distribution customers and maintain market share positions
- **Adverse climatic conditions affected timing of sales and reduced demand in many key markets**
- **Additional competition for fewer sales resulted in pricing and margin pressure**

## The glyphosate impact

	Glyphosate		
	<i>the BUBBLE</i>	<i>the BURST</i>	
	2008	2009	2010
<b>Sales</b>	\$962m	\$868m	\$597m
<b>% of total</b>	39%	32%	27%
<b>Av. gross margin %</b>	31%	18%	12%
<b>GM \$ contribution</b>	\$296m	\$155m	\$69m
<b>% of total gross margin contribution</b>	39%	21%	13%

**Write-downs and customer support measures resulted in a negative \$57.1 million impact at the gross profit level**

## Glyphosate

- **We assume excess capacity over the long term**
  - 'Tech' pricing will remain competitive
  - Market pricing will also remain competitive
  - Nufarm will have different margin opportunities/leverage in different markets/segments
  
- **'Arbitrage' opportunity for traders has now passed**
  - Smaller players are leaving the market
  
- **Market access and opportunity to secure higher value sales will be key**

### Forecast assumptions

- Average gross margin of 15-20%
- Average revenue contribution of approx 25%

## Other segments

- **Sales of non-glyphosate products fell 13% year on year**
  - In local currency non-glyphosate sales increased by 15% in USA and fell by just 4% in Brazil and Europe
- **Gross margin contributions from phenoxy herbicides increased on lower sales**
  - AH Marks synergies
  - Product differentiation
- **Lower insect pressure/demand resulted in lower insecticide sales**
- **Fungicide sales and gross margin contribution up 16%**
- **Strong sales and margin growth in seeds**

## Some positives

- **Market access and market share positions maintained**
- **Growth in US turf and ornamental segment**
- **Additional market penetration and margin growth in Asia**
- **Successful expansion in Eastern Europe**
- **Significant product launches**
  - 'Nuprid' (imidacloprid)
  - 'Sativa' and 'Mystic' (tebuconazole)
- **Successful integration of several new seed businesses**

**We have consolidated and strengthened our global supply and distribution base, and maintained momentum in terms of growth into higher value segments**

# **Kevin Martin**

## **Chief Financial Officer**



# 2010 Full Year results



## Profit analysis

<b>\$'000s Net profit after tax</b>	<b>2010</b>	<b>2009</b>
<b>Operating profit</b>	<b>58,566</b>	<b>159,632</b>
<b>Material items</b>	<b>&lt;82,556&gt;</b>	<b>&lt;79,755&gt;</b>
<b>Attributable to shareholders</b>	<b>&lt;23,990&gt;</b>	<b>79,877</b>
<b>Minority Interest</b>	<b>1,338</b>	<b>665</b>
<b>Headline result</b>	<b>&lt;22,652&gt;</b>	<b>80,542</b>

## Material items

<b>\$'000s Net of tax</b>	<b>2010</b>	<b>2009</b>
<b>Due diligence / Competition Commission</b>	<b>4,548</b>	<b>11,546</b>
<b>Glyphosate related costs</b>	<b>30,074</b>	<b>63,456</b>
<b>Restructuring costs</b>	<b>11,034</b>	<b>2,713</b>
<b>Other</b>	<b>&lt;636&gt;</b>	<b>2,040</b>
<b>Tax loss write off</b>	<b>37,536</b>	
	<b>82,556</b>	<b>79,755</b>

# 2010 Full Year results



## Profit rollforward

\$'000s	2010	2009	Movement
Sales	2,168,630	2,677,083	<508,453>
Gross profit excl. material items	529,890	677,439	<147,549>
Expenses excl. material items	<403,399>	<412,910>	9,511
Other income	8,641	11,054	<2,413>
Associates profit	47	3,080	<3,033>
Operating profit (segment result)	135,179	278,663	<143,484>

## Analysis of gross profit movement

<b>\$'000s</b>	
<b>Glyphosate</b>	<b>&lt;99&gt;</b>
<b>Insecticide</b>	<b>&lt;16&gt;</b>
<b>Phenoxy herbicide</b>	<b>&lt;10&gt;</b>
<b>Other herbicide</b>	<b>&lt;20&gt;</b>
<b>Net all other</b>	<b>&lt;3&gt;</b>
	<hr/>
	<b>&lt;148&gt;</b>
	<hr/>

## Working capital movement

\$'000s	2010	2009	Movement
Receivables	852,986	787,760	65,226
Inventory	553,432	797,383	<243,951>
Payables	<393,868>	<407,421>	13,553
Net working capital	1,012,550	1,177,722	<165,172>

# 2010 Full Year results



## Net debt

\$'000s	2010	2009
Borrowings short term	794,164	620,361
Long term	13,633	402,327
Cash	<188,741>	<84,312>
Net debt	<u>619,056</u>	<u>938,376</u>
Opening balance net debt		<938>
Less capital raising		246
Less cash from operations		195
Capital expenditure		<46>
Business acquisitions		<43>
Product development and intangible		<45>
Net all other		12
		<u>&lt;619&gt;</u>

**Brian Benson**

**Group General Manager - Agriculture**

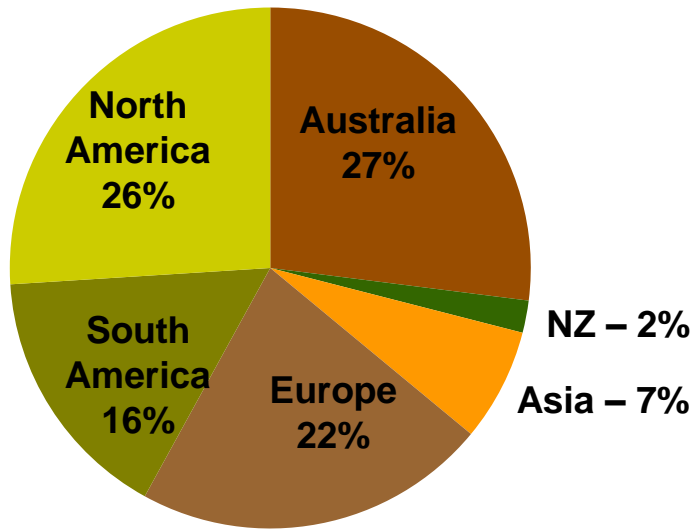


# 2010 Full Year results



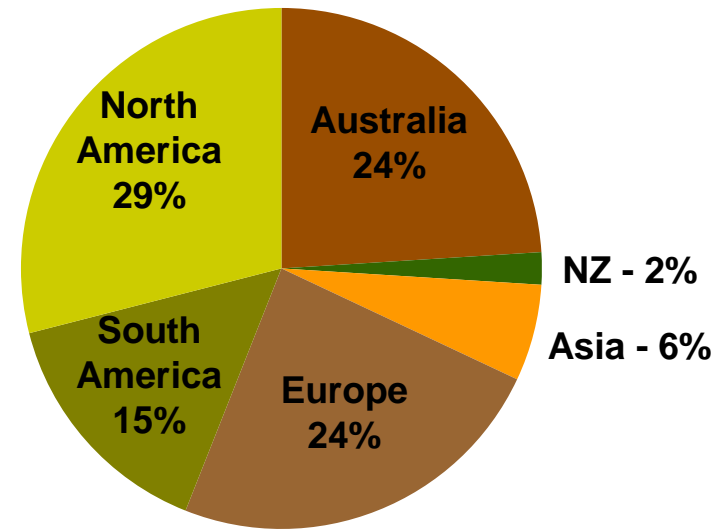
## Nufarm sales by geography

**2010**



**Total sales - \$2.17 billion**

**2009**



**Total sales - \$2.68 billion**

# 2010 Regional overview



## Australasia

### Key drivers

#### Australia

- Summer crop plantings down by more than 20% on previous year
- Eastern/Southern States experience positive autumn/winter growing conditions
- Western Australia is well below average
- Glyphosate volumes up, but pricing/margins down
- Strong performance in horticulture, cotton and sugar segments
- Revenues down by 7%; very competitive pricing environment

#### New Zealand

- Drought impact in some regions
- Challenging conditions prevailed in dairy sector
- Revenues down by 9%

#### Asia

- Improved profit performance
- Indonesia benefits from higher rainfall and herbicide demand

	<u>2010</u>	<u>2009</u>
<b>Revenue</b>	<b>\$799m</b>	<b>\$850m</b>
<b>Segment profit<sup>1</sup></b>	<b>\$89.2m</b>	<b>\$118m</b>

<sup>1</sup>Segment earnings before interest and tax, excluding impact of material items

# 2010 Regional overview



## North America

### Key drivers

#### USA

- Climatic conditions impact timing and demand
- Continued instability and pricing pressure in glyphosate segment
- Aggressive de-stocking by distribution
- Strong performance in turf and ornamental segment
- Expanded portfolio in cotton
- Ex glyphosate sales increased by 15% in local currency but total sales fell by 10%

#### Canada

- Heavy rainfall/flooding dramatically reduces planted acreage
- Some new competition in grass herbicide segment
- Overall market share maintained

	<u>2010</u>	<u>2009</u>
<b>Revenue</b>	<b>\$554m</b>	<b>\$775m</b>
<b>Segment profit<sup>1</sup></b>	<b>\$33.2m</b>	<b>\$112m</b>

<sup>1</sup>Segment earnings before interest and tax, excluding impact of material items

# 2010 Regional overview



## South America

### Key drivers

#### Brazil

- Intense competition and margin pressure
- Support measures provided to distribution customers
- Credit issues improving....but still a factor
- 'Nuprid' launch and performance in pasture segment both positive
- New management and restructure of sales force
- Sales down 15% in local currency (ex glyphosate sales down by 4%)

#### Argentina

- Improved product mix generated higher sales and stronger profit result
- Differentiated glyphosate position
- Seeds operation established

	<u>2010</u>	<u>2009</u>
Revenue	\$342m	\$415m
Segment profit <sup>1</sup>	(\$15m)	(\$40m)

<sup>1</sup>Segment earnings before interest and tax, excluding impact of material items

# 2010 Regional overview



## Europe

### Key drivers

- Climatic conditions difficult across most markets
  - Dry autumn
  - Long, cold winter
  - Cool, dry spring
- Grower purchases declined in line with lower farm incomes
- Significant volume reductions in some segments
- Total sales declined by 9% (measured in Euros). Ex glyphosate sales down 4%
- Subsequent impacts on European manufacturing operations
- Market shares held in most countries; gains in UK, Spain and Eastern Europe
- Nufarm Ukraine launch
- New product introductions

	<u>2010</u>	<u>2009</u>
<b>Revenue</b>	<b>\$475m</b>	<b>\$637m</b>
<b>Segment profit<sup>1</sup></b>	<b>\$53.4m</b>	<b>\$119m</b>

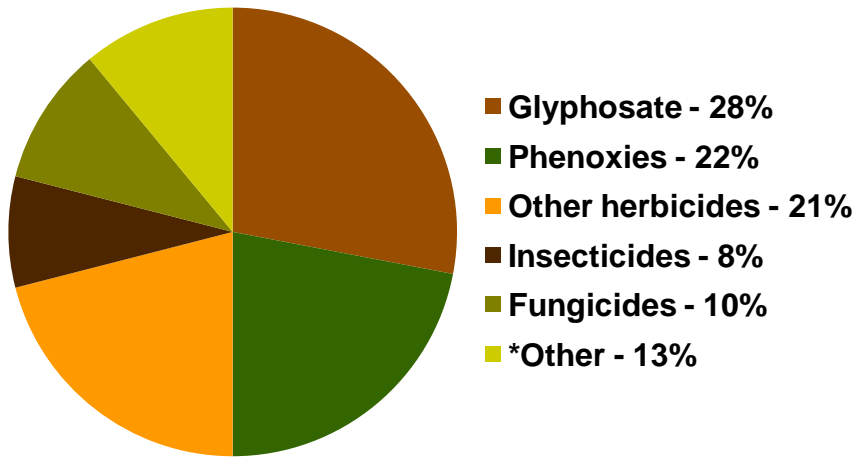
<sup>1</sup>Segment earnings before interest and tax, excluding impact of material items

# 2010 Full Year results



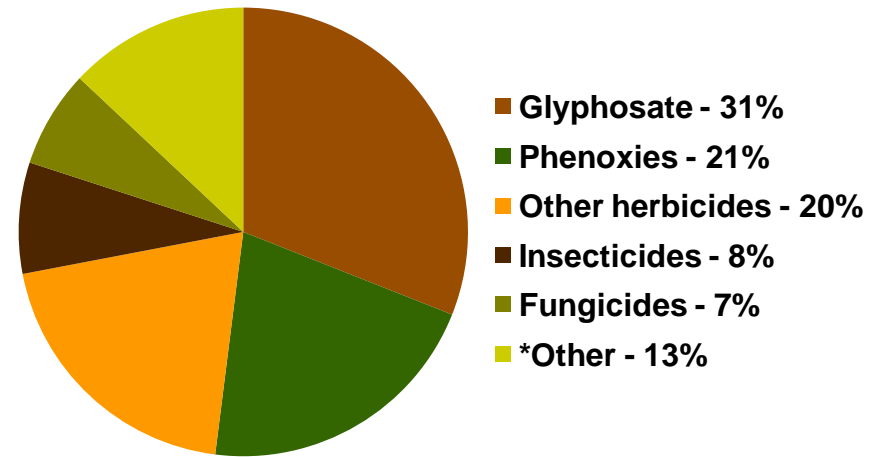
## Sales by key products

**2010**



**Total sales - \$2.17 billion**

**2009**



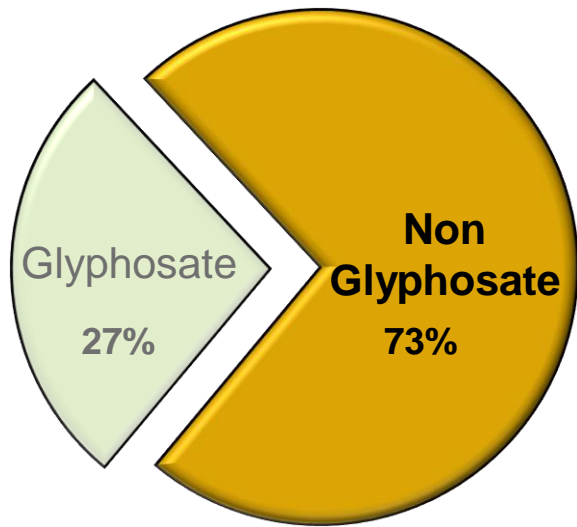
**Total sales - \$2.68 billion**

\*Other – includes PGR's; adjuvants; seed treatments; seeds; spray machinery; industrial sales

# 2010: Key segments review



**Our growth will be driven by profitable expansion into higher value product segments**



**2010 sales: \$2.17b**



**Phenoxies**

**Fungicides**

**Other herbicides**

**Seed treatment**

**Insecticides**

**Seeds**

# 2010: Major segments review



## Phenoxies

2010 sales	CAGR 2006-2010
\$475m	5%
Av. GM % 2010	% total GM \$
33%	30%

**Phenoxy outlook – growth in glyphosate resistance will continue to create opportunities for phenoxies**

- Global leadership position and fully integrated
- Increased competition in some 2,4-D markets
- Operational efficiencies realised in methyls
- Dichlorprop-p registration received in Canada
- Corasil PGR launched in Spain and South Africa
- New formulations/differentiation strategy
- Trait implications on horizon

# 2010: Major segments review



## Other herbicides

2010 sales	CAGR 2006-2010
\$453m	6%
Av. GM % 2010	% total GM \$
31%	26%

### 2010 Key Product introductions

- Four SU products launched in USA
- Nicosulfuron- initial EU sales: France, Italy, Greece

- Lower sales value but higher GP achieved
- Strong growth in pyridines
- Mixtures development with Bromoxynil continues
- Brazil pastures growth strong
- Dicamba continues to grow
- Glyphosate resistance management opportunity
- Solid growth going forward with rising GP

# 2010: Major segments review



## Insecticides

2010 sales	CAGR 2006-2010
\$174m	27%
Av. GM % 2010	% total GM \$
34%	12%

### 2010 Key Product introductions

- **Nuprid** – Brazil, France, Italy, Spain, Netherlands, Hungary, Portugal, Croatia, Czech, Russia, Turkey, Egypt
- **Kaiso** – Europe, USA, Argentina
- **Specialty formulations:** suSCon Forestry; Imidacloprid & Tebuconazole

- **Focus on 4 big insecticide families** (Neonics; OP's; Pyrethroids; insecticide growth regulators)
- **Nuprid (Imidacloprid) provides strong 'foundation' position**
- **'Nuprid' entry strategy very successful**
  - Registrations in 25 countries, selling in 18 countries
  - Targeted at niche, higher value market segments
  - Provides foundation insecticide position for 'new formulations' (Sorbie and suSCon), mixtures, and continued penetration into seed treatment
- **Replacement of 'Phase Out' products in Brazil on track**

## Fungicides

2010 sales	CAGR 2006-2010
\$217m	13%
Av. GM % 2010	% total GM \$
31%	13%

### 2010 Key Product introductions

- Sialex (Sumitomo) in Brazil
- Fluazinam rollout continues in Europe
- Azoxystrobin registered in New Zealand

- **Consolidation and growth of tebuconazole market**

- Used in large number of crops
- Both foliar and seed treatment applications
- Many mixture options available
- Cornerstone active for seed treatment
- Nufarm positions in Australia, Latin America and Europe (60+ registrations)

- **Broad based mixtures strategy well underway**

- Fluazinam (Europe)
- Copper
- Triazoles

## Seed treatment

**A growth market as growers and breeders seek to protect the increasing value of high performance germplasm**

- **Offers a bolt-on, value add revenue stream for Nufarm's expanding seeds portfolio**
- **Able to utilise tebuconazole and imidacloprid positions as cornerstone actives**
- **Started in 2005 with 15 registrations in 4 countries (13 in Australia) to now more than 50 registrations in 15 countries**
- **Dedicated ST staff with significant experience in the US, EU and ANZ geographies**

## Seeds

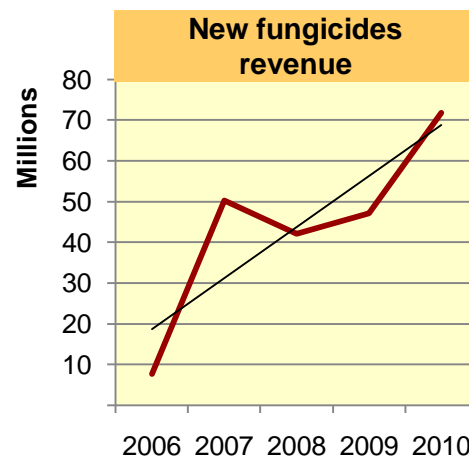
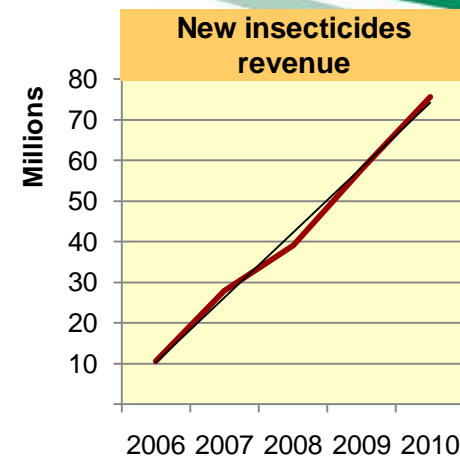
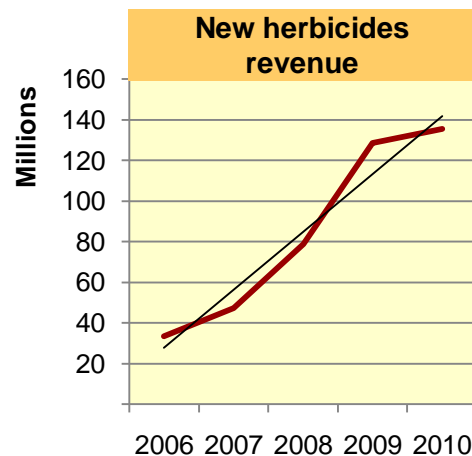
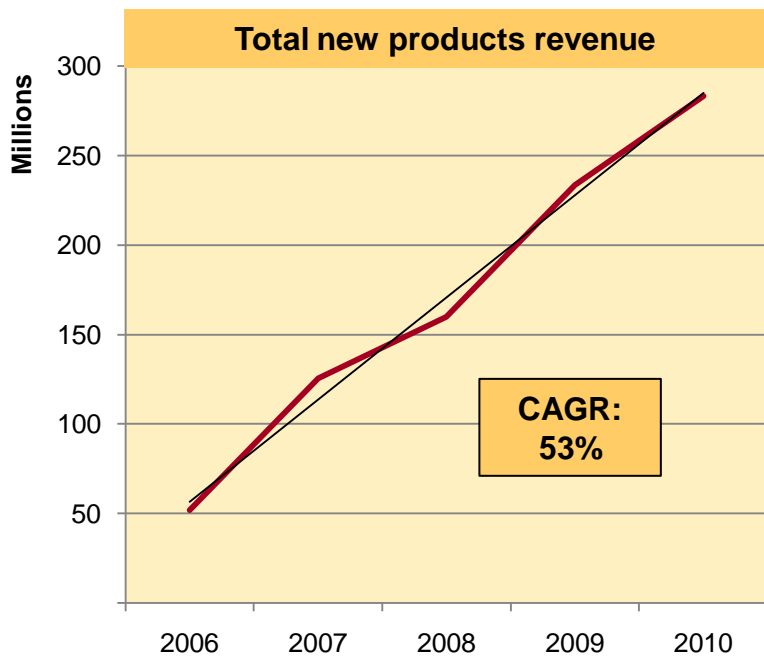
**A focused approach aimed at building a global scale, high margin business in a number of core crops**

- **The successful acquisition and integration of elite germplasm and breeding assets**
  - Herbicide tolerance, disease resistance, feed value improvement traits (Brown mid rib), food value improvement traits (food grade sorghum)
- **Selling elite hybrid products into more than 25 countries**
- **Currently earning average gross margins of 45-50% and forecast to generate strong organic EBIT growth**
- **Substantial opportunities for additional growth via targeted acquisitions**

# 2010 Full Year results



## New<sup>1</sup> product revenues



Average Gross Margin %				
2006	2007	2008	2009	2010
35.4%	41%	44.7%	44.8%	39.9%

....and strong momentum to underpin future growth, with an average of more than 20 new product registrations in each of the next 4 years

<sup>1</sup>Products launched by Nufarm within past five years

# Sumitomo relationship



## **A mutual commitment to identify areas of commercial co-operation that will add value to both companies**

- **Product distribution agreements that put Sumitomo chemistry across Nufarm distribution bases**
  - Brazil, Indonesia, UK and Germany now underway
  - More to follow: Canada, Eastern Europe
- **Product distribution agreements that put Nufarm chemistry across Sumitomo distribution bases in North Asia, Mexico; and potentially other markets**
- **Product development collaboration, with an initial focus on glyphosate resistance management programs**
- **Operational efficiency collaboration – toll manufacturing in Australia**

# Outlook statement



- **Glyphosate segment expected to stabilise**
  - Pricing will remain very competitive
  - Various 'one-offs' in 2010 should not recur
  - Nufarm is now cost competitive and has retained strong market access
- **A return to more normal/average climatic conditions will result in increased demand and volume opportunities**
- **Increased demand would facilitate a more favourable pricing environment**
- **Strong expectations for an improved profit outcome in Brazil**
  - Combination of internal change; improvement in trading conditions
- **Continued introduction of new products and growth in higher value segments**



**Confidence for improved profit outcome in 2011**

# Financing update



## Financing update

- **Waiver agreement secured**
  - Funding commitments provided through to mid December
  - Lenders to be updated on progress against forecast earnings and cash flow projections
  - Updates also to be provided on strategic and management plans
  
- **Additional associated financing costs**
  - Estimated at up to \$10m (approximately \$8m in one-off waiver fees and adviser fees)
  
- **Discussions underway re transition to new long term financing structure**
  - Syndicated approach and other options being considered
  - Expressions of support from key lenders

# Strategic Review



## A comprehensive review of the business is underway ...

- 1 ... Revisiting/challenging strategic growth plan**
- 2 ... Reviewing business models**
- 3 ... Challenging revenue growth and margin assumptions for products and segments**
- 4 ... Ensuring we have a cost/capital base that reflects the earnings capacity of the business; and that we allocate that capital in the right areas**

**Expert advisers retained to support process and ensure rigour and objectivity**

## Deloitte scope:

- To review budgeting and forecasting processes; financial reporting and management reporting systems
- Benchmark against best practice and recommend improvements
- To ensure forward looking forecasts are rigorous and encompass realistic assumptions



**Phase 1 report to Board with observations and recommendations that will result in appropriate changes**

## Gresham scope:

- Focuses on business/strategy issues
- Ensures review process/structure is rigorous
- Challenges assumptions and analysis
- Will make independent recommendations on review outcomes



**Initial report to Board identifies key areas of focus for growth.  
Work now continuing on detailed regional and segment plans.**

# 2010 Strategic review



## Building a better company

2006 -  
2008

<b>Glyphosate</b> 30-40%	<b>Other herbicides</b> 35-40%	<b>Insecticides</b> 3-8%	<b>Fungicides</b> 6-10%
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Approx gross margin contributions (% of total GM \$)

- Reporting & information systems
- Efficiency program
- Board renewal
- Management succession

- Product portfolio
- Development capabilities and focus
- Regional business models
- Organisational change

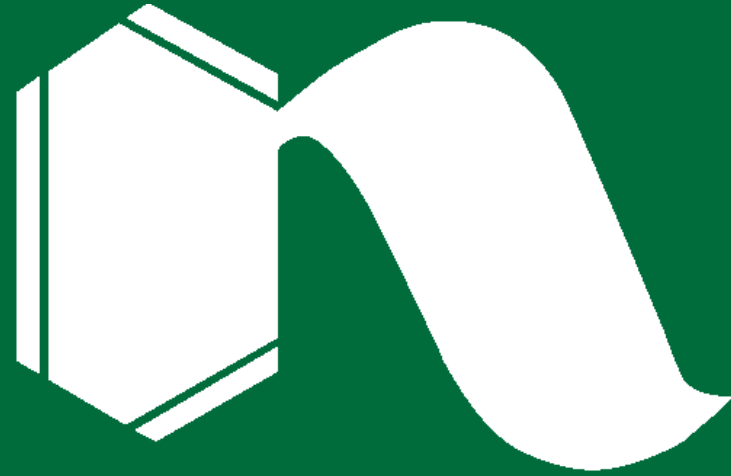
2011 -  
2015

<b>Glyphosate</b> 14-18%	<b>Other herbicides</b> 35-45%	<b>Insecticides</b> 8-12%	<b>Fungicides</b> 10-15%	<b>Seed treatment &amp; seeds</b> 5-10%
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Approx gross margin contributions (% of total GM \$)



**A more balanced portfolio, with increased contributions from higher value products/segments**



**Nufarm**