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Market Announcement Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Credit Suisse 2020 London Chemical and Agriculture Conference

In accordance with the Listing Rules, enclosed for release to the market are speaking notes prepared for Nufarm Managing Director and Chief Executive Officer, Greg Hunt, for the Credit Suisse 2020 London Chemicals & Agriculture (virtual) Conference today.

Mr Hunt will provide an overview of Nufarm's strategy and business, recent trading performance and factors impacting the outlook for the final quarter of the financial year.

Recent trading and factors impacting 4Q20 outlook

Revenues, gross profit and underlying earnings before interest, tax, depreciation and amortisation in the third quarter were up on the prior year driven by strong demand in Australia and North America as weather conditions returned to more normal patterns in these regions. Sales and gross profit in Europe tracked in line with the prior year despite the impact of difficult weather conditions in key markets and demand weakness in some market segments due to COVID-19.

Despite having shown considerable resilience during the initial phases of the COVID-19 pandemic, the ongoing impacts of the pandemic continue to create uncertainties and challenges, including in relation to product demand and currency impacts.

Of all our regions, Europe has been the most impacted by COVID-19. While conditions remain uncertain, it is likely the ongoing impacts of the pandemic will present increasing challenges in the fourth quarter. Demand in some market segments is being impacted by the consequences of shifts in consumer demand and purchasing patterns in response to the pandemic, as well as logistical challenges in harvesting crops and getting products to market. With this underlying uncertainty, our customers are not purchasing products under what would be considered typical patterns as we move into the Autumn sales campaigns.

In addition to this, dry weather in much of Europe over spring moderated demand, particularly in the fungicide market, which is experiencing lower disease pressure. This has created an intensely competitive dynamic, impacting margins.

These factors increase uncertainty in our forecasting, however early indications suggest the European business will experience a weaker fourth quarter than last year and this may result in second half earnings for this business being well behind last year.

In North America, demand in the Turf and Ornamental segment has been impacted by changed consumer demand resulting from the pandemic and it is uncertain when demand will return to normal levels. Improved conditions in the crop protection segment more than offset this weakness in the third quarter, and stronger demand in this market segment relative to the prior year has continued into the fourth quarter to date.

Significant volatility on global currency markets is also likely to impact Nufarm's financing costs for the second half of the financial year. The rapid depreciation of currencies in some of markets in which Nufarm operates, most notably Turkey, Poland, Russia and the Ukraine, is likely to result in a significant increase in total foreign exchange costs this year compared to last year.

While these factors will play out over the coming quarters we believe we are well positioned to navigate the current uncertainty with a much stronger balance sheet and liquidity position following the completion of the sale of the South American businesses.

Yours sincerely

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Credit Suisse 2020 London Chemical and Agriculture Conference
Speaker notes

Thanks for hosting us today Grant.

I know some of your audience won't be familiar with Nufarm, so why don't I start by giving you an overview.

We're a global crop protection business. We make and sell products such as herbicides, insecticides and fungicides that control pests and disease in a wide variety of crops. All of these products are designed to protect crops, increase yields and help farmers get more from their land.

We also have a fast growing and we believe a high growth oilseed technology platform and I'll come back to that later.

In our crop protection business, we have a diverse geographic reach which provides a degree of protection from adverse seasonal conditions, although that was severely tested during 2019, and our portfolio is weighted more heavily toward herbicides. This makes our earnings more resilient and somewhat more predictable because farmers need herbicides to deal with weeds every season, especially prior to planting crops, however insect and fungal outbreaks are somewhat more volatile and less predictable.

Our revenues put us in the top ten crop protection companies globally.

Before we get into the detail on Nufarm, I think it's worth spending a bit of time explaining our position in the context of the changing dynamics of the crop protection market.

Industry context

In the past, suppliers of crop protection solutions were largely focused around a group of companies who concentrated activity and research dollars in bringing new compounds to market.

Until the early 2000's, these Research companies, if you'd like to call them that, enjoyed strong intellectual property positions in all major markets with good returns on investment.

In combination with these Research companies were a large group of companies that followed along by picking up products as they came off patent and pursuing a lower cost to market model. These companies are commonly called Generics.

Neither of these groups really interfered with each other, pursuing their various strategies with differing success, and the market sustained both models.

From about 2004 onward, this began to change.

Commodity prices stagnated, farm incomes remained stubbornly flat, R&D pipelines dwindled and regulatory hurdles, particularly in Europe, meant that new products became increasingly sparse and more expensive to bring to market. For Generic companies, this meant there was less runway for new products and for research companies, there was several rounds of consolidation.

As a result, the Research companies have moved increasingly into the generic space and the Generics companies have looked to build relevance by building scale through their own rounds of consolidation and have moved into differentiated product development to supplement their margins. The comfortable line between the "Generics" and the "Research companies" has become blurred.

Nufarm strategy

Our strategy is very targeted. We do not invest large amounts of capital in early stage R&D. Our product offer is a combination of the basic products farmers need every season and the differentiated products that are higher margin and confer particular benefits or meet specific needs.

We focus our activities and resources on five core crops and the key geographies that we've chosen because of a combination of their size, their growth potential and our ability to leverage our strengths both in terms of our portfolio relevance and distribution reach.

We believe this focus - deeper rather than broader - will allow us to generate better returns for our shareholders over time.

If we're able to concentrate on a deeper penetration into crops, products and geographies in which we feel we can win, this will provide us with the critical mass and relevance that will attract partners who have developed technology and solutions that need an independent commercial footprint.

We know that if you have size and distribution footprint, there will be no shortage of opportunities and offers to access new technologies and products. The growth in our product portfolio is testament to that.

Scale also allows us to develop partnerships with manufacturers of active ingredients that have invested in large scale, heavy manufacturing and need strong, reliable markets for distribution. This allows us to maintain a competitive position with our end customers.

Performance against strategy

We adopted this more focused strategy in 2015 and I think it is worth reflecting quickly on what we achieved in the first three years before we encountered some significant headwinds. We had three very simple internal metrics. Increase margins, reduce net working capital and improve Return On Funds Employed, or ROFE.

In those first three years we grew the top line by nearly 20%. We expanded our gross profit margin by nearly 300 basis points, increased EBITDA by nearly 40% and delivered an increase in underlying EBIT of more than $100m. We reduced average net working capital to sales from 47% to 38%, releasing significant capital from our business. ROFE improved from 7% to 13%.

Having a stronger and healthier business allowed us to make significant reinvestment back into our business – omega 3 canola, IT systems and the European portfolio acquisitions in 2018.

Then of course we had two years of severe drought in Australia, unprecedented floods in the USA and major supply disruptions from China which particularly impacted the European acquisitions. The glyphosate litigation against Bayer in the United States also provided an unwelcome overhang on sentiment.

I mention these issues not as an excuse for the results over the last two years but to reassure your clients that we can improve performance, we can hit targets. We have done it before.

Capital markets can have a low tolerance for delayed performance, and frankly, we're not always good at setting those expectations clearly enough either. We have however been through the so called proverbial perfect storm and that's meant it's been harder for us to realise the returns on our key investments in infrastructure and portfolio. Does it mean that those investments were wrong? Far from it. In the context of the broader market environment, having a business that has a sizeable footprint, relevance to customers and suppliers, efficient supply chains and the ability to acquire, partner and commercialise new technology, is how Nufarm will create a sustainable competitive position and good return to our owners.

I'm pleased to say we now have some more favourable winds at our back and expect some relief from those external headwinds.

Sale of South American businesses

I do think it is worth spending a few minutes on South America, because what we achieved in recent years in terms of growth and market relevance, and then the sale to Sumitomo, provide some important insights into value.

In recent years, particularly in Brazil, we built a relevant position in our chosen core crops and delivered top line growth of 11% compound annual growth from 2015 to 2019, and 5% EBITDA growth over same period.

This position was the catalyst behind Sumitomo approaching us in the second half of 2019 about buying this business.

Sumitomo had developed a pipeline of proprietary products for this market, the first of which will launch in 2021, and by acquiring our established footprint and market position they are now able to capture the full margin on those products.

For me this demonstrates the value in the market positions that we have been able to build over a number of years. For our shareholders the up-front value achieved, more than 12x earnings, validates the market access and brand equity represented in these key markets. We settled the transaction for just under $1.2 billion Australian dollars in April this year. This has significantly strengthened our balance sheet, and in the context of COVID 19 the timing of the sale has been very fortuitous.

This transaction also strengthens our relationship with Sumitomo. We will continue to work together to develop products for the relevant crops which can be targeted in both South and North America. We were also able to confirm we are the preferred distributor for a major new fungicide they are developing for some of our major European markets. In addition, Nufarm will continue to provide procurement services to Sumitomo in South America for two years, preserving our combined purchasing volumes for the benefit of both companies.

North America

Turning to North America, we have the same strategy of focusing on our core crops. Corn, soybean, cotton and cereals, being the major crops.

One key difference is the position we have in the highly valuable turf and ornamental segment which I will touch on later.

Similar to our experience in South America we have consistently grown our market relevance by developing strong relationships with our channel partners and investing in our portfolio and modernising our manufacturing capacity.

This strategy has delivered compound annual top line growth of 15% over the past five years and 19% EBITDA growth.

We've recently invested around $30m in a new formulation facility in Greenville, Mississippi.

Our customers in the important agricultural area of the Mississippi delta have welcomed this investment. The new facility is the latest in-line formulation. It means that we can be more responsive to meet surge demand, while also making some significant logistics cost savings through not having to ship product from our hub in Chicago.

We only commissioned the factory late last year so it's early days, however so far it's performed very well.

In Canada we have an exclusive relationship with Sumitomo to distribute their portfolio of crop protection products. Canada is an important market which generates about 20% of our earnings in North America and has delivered consistent growth over the last five years. Our strength in cereal portfolio is particularly important in Canada.

We have a specialty Turf and Ornamental business in the US. It's a bit different because it's focused on lawns, greenhouses, gardens, golf courses and other niche areas. We like it because we leverage the same molecules we use in the agricultural segment, it's higher margin and generally less seasonal than the other markets. We are ranked number three in Turf & Ornamental and our brand is well known at the end user level. We also represent Sumitomo exclusively in this segment. Again, in this market segment we have achieved consistent growth over the past five years.

Turf and Ornamental however is the market segment in North America that we've seen most impacted by Covid-19. Golf courses have been closed and the demand for cut flowers, ornamentals and nursery plants has fallen, and that's had an impact on demand for our products.

Looking at our recent overall financial performance for North America, we had a very difficult first half this year while we dealt with the carry over impacts of the flooding in the mid-west that resulted in ten million acres not being planted.

However, we've had a strong third quarter notwithstanding the weaker demand in the Turf and Ornamental segment. Crop planting has rebounded and our earnings for the quarter were up on last year, allowing us to recover some of the reduced earnings from the first half of the year.

Putting aside these industry-wide, short-term issues, we're confident our strategy continues to be sound. It's delivering underlying growth and we expect this to continue.

Europe

Europe is a different and more complex market for us than North America. It has a higher proportion of higher value specialty crops, and our focus in terms of broadacre crops is somewhat different without soybean. As an example, cereals whilst important in all our core markets, is a particularly important segment in Europe and I can touch on that a little more later.

We also have a significant manufacturing footprint in Europe that produces products for both our European and our global markets.

We've made large investments in this region over the past few years.

As I've mentioned, we invested heavily in our portfolio with the acquisitions two years ago, and we invested in a European wide ERP system designed to deliver standardised processes, improved efficiency and better control of working capital.

The portfolio acquisition opportunity presented as a result of the industry consolidation I referred to earlier and forced divestments from competition regulators.

The products we acquired were well recognised brands, and very well aligned with the key growth crops we'd identified for Europe – cereals, TNVV (Trees, Nuts, Vines and Vegetables), and oil seed rape. They were weighted into the key markets where we were seeking to build relevance – Germany, France, Spain, UK and Poland.

So, they are a very good fit with our business and we have been successful in increasing our scale and relevance to customers in these key markets and crops. As an example, external data demonstrates that Nufarm has significantly increased market share in the cereals market following the acquisition.

We have had setbacks. We were not able to secure the volumes of some of the key products through 2019 that underpinned the original business case. We expected this to continue into 2020, and it did. The interruption was prolonged as a result of Covid-19 and it will impact performance in this financial year.

We are making steady progress though. We believe we finally have supply in a considerably stronger position, and we also believe that in the coming 12 to 24 months we can expect to see an easing in the significant COGS increases we have experienced due to the constrained supply we have experienced over the last two years.

In terms of recent performance, first half earnings were down $23m on last year.

Sales and gross profit in the third quarter increased on the prior year, however the outlook for the fourth quarter is very uncertain. Of all our regions, Europe has been the hardest hit by COVID-19.

Changes in consumer demand patterns (closed restaurants, etc) have impacted farmers producing perishable crops and fresh foods. Cut flowers is another segment where demand for crop protection products has been severely impacted. Many farmers are not able to access the seasonal labour required to harvest crops. They are not investing to maximise the yields of crops they may not harvest. Many are not sure if they will plant a new crop until the situation improves. With this underlying uncertainty, our customers are not purchasing products under what would be considered typical patterns,

To add to this, very dry weather in much of Europe over Spring has also negatively impacted sales, in particular the important fungicide market which is experiencing lower disease pressure. Sales that are being generated are being made in a more intensely competitive dynamic, which is impacting margins.

It's very difficult for us to forecast in this environment however we think it's likely we will see a weaker fourth quarter than we had last year, and that could put our second half earnings well behind last year.

The other impact of COVID-19 is on currency. We've seen significant volatility on global currency markets in the past few months that has caused a rapid depreciation of currencies in some of our developing European markets, most notably Turkey, Poland, Russia and the Ukraine.

A depreciating local currency in these countries results in foreign exchange losses on Euro denominated payables and we record any realised and unrealised foreign exchange gains and losses as financing costs. We believe there will be a significant increase in our total foreign exchange costs this year compared to last year.

We have more to do in Europe to improve returns in the near term.

We're broadening our focus from integrating the new portfolios to also addressing opportunities to improve returns in the underlying business.

We increased our sales and support teams to support the acquisitions and this has increased our cost base. Our manufacturing assets are also under increasing pressure to remain competitive with increased imports from India and China. These are opportunities we'll be addressing in the near term.

However, many of the issues in Europe are short term and industry-wide, and we genuinely believe in the position of relevance we have generated in this important agricultural region.

European regulatory environment

On the regulatory front, Europe has a very different regime to the other regions. It is based on a precautionary principle rather than the model of scientific risk assessment. This makes it more uncertain, higher cost, higher risk, and that's largely reflected in the higher product margins earned in this market.

The most recent update has been the "Farm to Fork" strategy paper published by the European Commission two weeks ago. What that has added to the discussion is a clearly stated political ambition to reduce the overall use and risk of chemical pesticides by 50% by 2030. The target had been very well flagged and I don't think there were any major surprises in that announcement for us.

What the strategy means in practical terms is not yet clear. The targets are not yet binding and there is still a lot of detail to be worked through. The earliest expectation for the legislation to be completed is 2024, and it will require approval from the EU governments, the European parliament, and many EU countries. So there is a long way to go.

What we take from the announcement is that these are ambitious targets. There is at least an inherent acknowledgement of that, and by inference an understanding of the important role of crop protection for farmers and food production. We don't see any immediate additional risk to any particular compound as a result of the announcement, however as more detail becomes known there are likely to be compounds that become clear winners in the future and others that will be impacted. With mitigation strategies for various scenarios, this is consistent with the framework we have been working with for some time now.

Farmers will still need economically viable alternatives to manage pests, weeds and disease. In the case of row crops such as cereals, European farmers also need to be competitive on the world market. Biological, or natural, products which can substitute for synthetic products are an option, yet regulators don't currently offer an accelerated regulatory pathway for these types of products. For example, Nufarm has recently acquired a biological seed treatment product from

BASF which may be suitable for commercialisation in Europe, yet the cost and time required to develop and register this product make this economically prohibitive.

The implications of the European regulatory regime for us at this stage is that we will continue to invest into what we believe are the lower risk molecules from a regulatory viewpoint. We will continue to invest small amounts into chemical alternatives, like electrical weeding, that might provide viable future alternatives. We also have the new and proprietary Sumitomo products due to launch in 2023, which will provide a meaningful addition to our portfolio.

To summarise on Europe, we have some short-term challenges from weather and Covid-19 in the current quarter, and some more work to do to lift returns on the investments we've made. However, we've got the portfolio and the people and the systems in place, so we're well on the way.

Asia Pacific

Turning to the Asia Pacific region. We are of course listed on the ASX and Australia and New Zealand have been our home base for more than 100 years.

We are the leading manufacturer and supplier in Australia in terms of market share.

We have invested over the past five years to improve our competitiveness and strengthen our position as a reliable and sustainable supplier to our customers and improve returns to shareholders.

These have been tough markets in the past two years. We are just emerging from two years of drought, the worst in 100 years. This took around $150m off our sales in Australia last year and continued to impact us through the first half of this year until we got some relief with rains in late January.

The rainfall has continued and is widespread into most of the major grain growing regions, generating strong demand for our products. Third quarter sales and earnings have rebounded. There is no doubt we could have sold considerably more in the quarter if we had built higher levels of inventory. However, we were seeing very weak demand and sentiment from customers right up to January, so we were managing our working capital very cautiously. When it did rain, we were able to ramp up our production facilities, although logistics and shipment delays caused by covid-19 complicated our ability to fully meet the large surge in demand.

Nonetheless, it's a significant turnaround in performance and that's carrying through into the fourth quarter.

We've still got work underway in this region to reduce costs and improve the way we work. As that work progresses and we assume a return to more normal weather conditions we're confident we're on the right path to rebuild our earnings base to around $50m in the next couple of years.

We also have a small presence in Asia. This is mostly centred around Indonesia and we generate good, consistent returns and cash flows here. Our ability to grow in the short term is somewhat limited by our crop focus. It's not a region that aligns well to our core crops, however it does give us a good base and optionality for future growth if we decide to invest in new crops like rice and vegetables.

Seed Technologies

Our Seed Technologies business is a global business. It combines our seed treatment products with our Nuseed subsidiary.

Nuseed is growing quickly from a small base, and its focus is quite different to the seed portfolios of the major crop protection or seed companies.

If you look at the major innovation in seed technologies to date, they have mostly focused on what we call "input traits" that drive greater yields. These technologies have built an entire global industry, and yield improvements are still critically important.

Nuseed has a focus more biased to output traits – characteristics that change how the end product can be used so we can create higher value crops. Yield is still important, and we combine both input and output traits in our crops. We call this our Beyond YieldTM strategy.

Nuseed is a business with a lot of intellectual property. We've built a strong global seed platform with proprietary genetics and we have a strong R&D capability.

We focus on smaller, niche crops, particularly oil crops. We have a lot of expertise in this area and have built very competitive market positions in canola, sunflower and sorghum. We have also recently added a new oil crop, Carinata, to the portfolio.

We have developed output traits in each of our crops, however the most significant example so far is our omega 3 canola oil.

This is a proprietary product we developed with the CSIRO and GRDC in Australia.

It allows us to express the long chain omega-3 fatty acids that are naturally occurring in algae into canola oil, and that is opening up whole new markets for canola oil.

Our initial target market is as a feed ingredient for fish farming. This market currently relies on fish oil as a key ingredient for the health of the fish and as the source of the omega 3 which confers a major health benefit for humans.

Other market opportunities for us include nutraceuticals, food additives and pharmaceuticals.

The fish oil market is currently estimated at around US$2 billion and it's constrained by quotas on fish catches. We have previously shared industry estimates that the aquaculture and human health industry will require approximately two times the current world supply of fish oil by the end of the decade.

This creates a very large, unmet opportunity. The market will no doubt have various choices so we don't try to estimate how much of the share we will gain, however we estimate that as we build scale to say, 20 to 30% of that unmet need, we will generate around $8.5m of EBITDA for every 1% of share we gain.

So, it's a very big opportunity for us. It's been a decade-long project and we've invested about $100m into it.

We've worked with CSIRO and GRDC to develop the intellectual property, we've completed fish trials with end customers involving around one million fish; we've recruited growers and contracted the operators for our supply chain requirements.

We are now right on the cusp of our very first commercial sales, with oil ready for delivery to customers in Chile in the next couple of months.

So now we can start on the next steps of building more scale and expanding our market presence. We're looking to double oil production next year and expect to be EBITDA positive in FY21.

We've also started human trials for our nutraceutical product and there are opportunities also in the high margin food additives and pharmaceutical markets.

This is potentially a very transformational opportunity for us.

I should also mention our new crop, carinata.

We acquired the genetics and patents for this in November from Agrisoma and it fits well with our Beyond YieldTM strategy.

It's a brassica crop, very close to canola with high oil and protein content. It has high biomass and high yield and can be grown as a cover crop. It yields an industrial oil that's suited as a feedstock for biofuels, and the meal is a high protein, non-GM feed source.

The target market for the oil is the biofuel industry. It works as feedstock into three different sectors of that industry – the first-generation biodiesel market, the second-generation of advanced biofuels, and also for co-processing in the petroleum industry.

The crop and growing system has already been certified through European regulatory bodies as a sustainable biofuel feedstock and it's being delivered into French and German biodiesel markets with certified GHG reductions of up to 145%. That places carinata as a BEST In Class sustainable feedstock.

So far, we've established commercial production systems in Uruguay and Argentina and our first crops are being crushed in France. We'll look to scale this up over the next few years and think we can product around 200,000 MT of oil in the medium term.

We think it will make a small EBITDA contribution next year, and while we haven't provided financial metrics around this crop yet, we think it will be another exciting and meaningful crop in the Nuseed portfolio.

As you can see, our Nuseed strategy is a very distinct strategy within our industry; one that has taken some time to build, but that delivers much greater scale and growth potential than we could by competing for market share based on input traits in the major global crops. We think it's a very valuable growth platform.

Nufarm investment proposition

We believe Nufarm has a very compelling investment proposition.

We have a clear and focused strategy that is enabling us to compete effectively and we have been winning market share over the past five years.

We have a valuable business footprint, and that's been demonstrated very recently by the multiple achieved through the sale of our South American businesses.

We have a substantially stronger balance sheet following the sale of our South American businesses, that allows us to focus on higher value markets and segments.

There is some short-term uncertainty in relation to COVID-19, however we believe there is value in our business that has been masked by external events.

We have a significant opportunity to improve earnings and cash flows from our existing capital base in the near term.

And finally, a transformational growth opportunity in our omega-3 canola oil project that is on the very cusp of commercialisation right now.