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23 November 2021

ASX Release – Company Announcement

S&P upgrade Nufarm to BB credit rating and Stable Outlook

Nufarm Limited (**ASX: NUF**) advises that S&P Global Ratings (S&P) has upgraded Nufarm's credit rating to BB and revised the outlook to stable.

In the report, S&P noted

'Nufarm Ltd's continued improvement in its working capital management and strong trading performance across all operating regions, particularly Europe, have strengthened the group's credit metrics…. We view the introduction of the group's capital management framework, which prioritizes balance sheet strength and free cash flow ahead of shareholders returns as credit positive. We expect improved free operating cash flow generation and Nufarm's capital management framework to support sustainably reduced leverage over the forecast period.

Nufarm's CEO and Managing Director, Greg Hunt said:

"Nufarm welcomes the decision by S&P to upgrade its grade credit rating and revise the outlook to stable which recognises our focus on working capital management, improved trading performance in all regions and the introduction of the revised capital management framework."

A copy of the S&P Global Ratings report is attached.

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Research Update:

Nufarm Upgraded To 'BB' On New Capital Management Framework And Strengthened Balance Sheet; Outlook Stable

November 23, 2021

Rating Action Overview

- Nufarm Ltd.'s continued improvement in its working capital management and strong trading performance across all operating regions, particularly Europe, have strengthened the group's credit metrics. The global maker of crop protection products had an S&P adjusted debt-to-EBITDA ratio of 2.3x for the year ended Sept. 30, 2021, below our upward trigger of 3.5x.
- We view the introduction of the group's new capital management framework, which prioritizes balance sheet strength and free cash flow ahead of shareholder returns, as credit positive. We expect improved free operating cash flow generation and Nufarm's capital management framework to support sustainably reduced leverage over the forecast period.
- On Nov. 23, 2021, S&P Global Ratings raised its long-term issuer credit rating on Nufarm to 'BB' from 'BB-'. At the same time, we raised the long-term issue ratings on Nufarm's A$490 million senior secured bank facility to 'BBB-' from 'BB+' (recovery rating of '1'), its US$475 million senior unsecured notes to 'BB-' from 'B+' (recovery rating of '5'), and its subordinated NSS hybrid notes to 'B+' from 'B' (recovery rating of '6').
- The stable outlook reflects our expectation that Nufarm's deleveraged balance sheet, revised capital management framework, and improved working capital management should help to counter the inherent cyclically in the group's earnings and cash flow and allow adjusted debt to EBITDA to be sustained below 3.5x.

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Rating Action Rationale

The upgrade reflects our view that Nufarm will sustain leverage in line with our expectations of the 'BB' rating. We expect near-term tailwinds associated with product demand, price increases and volume growth across each operating region to offset supply chain disruptions and volatility in active ingredient pricing. We expect earnings growth in the Seed Technologies business to continue, underpinned by positive trends in oilseed, aquaculture, and renewable fuel markets. The group's adjusted debt reduced in fiscal 2021 because of improved working capital management and increased cash flow generation. We expect Nufarm's strengthened balance sheet to withstand some earnings volatility and potential working capital outflows in fiscal 2022, such that leverage will be sustained below 3.5x.

Implementation of Nufarm's new capital management framework shows management's commitment to prioritizing creditor interests. Under the capital management framework, growth capital expenditure (capex) must be considered and core statutory leverage must be within or below the group's 1.5x-2x target range before dividends can be paid. The alignment of the dividend policy with free cash flow should ensure that only surplus free cash flow (after growth capex) is paid out to shareholders. In our view, this framework should prevent the payment of debt-funded dividends, strengthen the group's capital structure, and enhance its capacity to accommodate inherent earnings and cash flow volatility in its businesses.

Improved European margins and earnings signal that recovery is on track and the region is expected to remain a key contributor to the group. The combination of improved conversion costs, product mix and the successful execution of the performance improvement program has restored profitability in the European business. Nufarm has identified some regulatory headwinds relating to the phasing-out of products when product registrations come off patent in fiscal 2022. We view the impact as minimal and transitory and anticipate the acquired Century and Surf product range and new product development will offset the losses and maintain profitability in the European operations.

Nufarm's continuing focus on working capital management should support cash flow generation and balance sheet strength over our forecast period. Nufarm's net working capital improvement in 2021 was attributed primarily to improved debtor collections, increased customer prepayments and a normalization of high inventory levels in Europe, underpinned by strong demand. While we expect some unwinding of these working capital flows in 2022, we expect the group's ongoing focus on working capital management, supported by the sale the of the South American operations, to support improved working capital investment. The group aims to maintain its average net working capital to sales ratio at about 35%-40%.

A strengthened balance sheet should allow Nufarm to weather changes in climatic conditions and earnings volatility. Nufarm operates in an industry that is susceptible to variable climatic conditions and associated earnings volatility. Credit metrics were stretched in prior years due to cyclically depressed earnings and a leveraged capital structure. Although the sale of the South American business has reduced the scale and diversity of the group's operations, we do not consider that it has materially affected the quality of the group's earnings, and the associated reduction in net debt helped reset the group's balance sheet. We expect Nufarm's current capital structure and financial policy framework to provide sufficient headroom at the current rating to withstand earnings volatility as climatic conditions change.

We expect Nufarm to sustain meaningful positive free operating cash flow over the forecast period. The group's strong operating performance and improved working capital management delivered A$280 million of free operating cash flow in fiscal 2021, well ahead of our prior expectations. While some of these strong operating tailwinds in 2021 may abate in the next 12-18 months, we expect the group's cash flow generation to remain positive. Nufarm's market share gains in key crop protection markets, execution of its commercialization objectives across its Seed Technologies business and improving working capital management should support continued positive operating cash flow. This should allow it to fund targeted growth investment opportunities over the forecast period.

Outlook

The stable outlook reflects our expectation that Nufarm's strengthened balance sheet, prudent capital management framework, and improved working capital management will maintain adjusted debt to EBITDA below 3.5x over the next two years.

Downside scenario

We could lower the rating if we expect Nufarm to sustain its adjusted debt-to-EBITDA above 3.5x. Downward rating pressure could also occur if the company sustains negative free operating cash flow or detracts from its new capital management framework such that shareholder returns are prioritized ahead of creditors.

Downward rating pressure could also arise from a material erosion of the group's competitive position across its key markets.

Upside scenario

Although less likely, we could raise the rating if we expect Nufarm to sustain its adjusted debt-to-EBITDA ratio below 2.5x and positive cash flow from operations to debt at more than 35%.

We view upward rating pressure caused by a strengthening of Nufarm's business risk profile as unlikely; this would depend on a fundamental improvement in the scale, diversity, and stability of the group's earnings and cash flow.

Company Description

Nufarm, with its subsidiaries, manufactures and sells crop protection products in Australia, New Zealand, Asia, Europe, North America, and other countries. It operates through two segments--crop protection and seed technologies. The company offers herbicides, insecticides, fungicides, and plant growth regulators to protect crops from damage caused by weeds, pests, and diseases. It also provides seeds and seed treatment products, and has a croplands equipment business.

Our Base-Case Scenario

Assumptions

- Forecast GDP growth in Australia of 4.2% in calendar 2021, 3.3% in calendar 2022 and 2.8% in 2023; growth of 5.7% in calendar 2021, 4.1% in 2022 and 2.5% in 2023 in the U.S.; and growth of 5.1% in calendar 2021, 4.5% in 2022 and 2.2% in 2023 in the eurozone;
- Favorable agricultural and trading conditions across key regions;
- EBITDA margin normalization in fiscal years 2022 and 2023 supported by reversion of longer-term weather patterns in Asia Pacific and the phasing-out of some products in Europe;

- Increased capex associated with carry-over of capex from fiscal 2021 (as COVID restrictions ease) and targeted investments in growth opportunities;
- Resumption of ordinary dividend payments in line with Nufarm's new capital management framework; and
- Some working capital benefit unwind in fiscal 2022 and modest working capital outflows from fiscal 2023.

Key Metrics

Year-end Sept. 30	2020a	2021a	2022e	2023f
Revenues (A$m)	2,847.40	3,215.70	3,250-3,300	3,300-3,350
EBITDA margin (%)	5.20%	9.10%	7.0%-8.0%	6.0%-8.0%
Debt (A$m)	714	665	700-800	700-800
Debt-to-EBITDA ratio (x)	4.8x	2.3x	2.5x-3.5x	2.5x-3.5x
CFO-to-Debt (%)	-29.6	38.3	5-15	20-30

a--Actual. e--Estimate. f--Forecast. *Nufarm's financial year end has been amended to September from 2021.

Liquidity

Nufarm's liquidity remains adequate, in our view. Over the coming 12 months, we expect sources of funds to exceed uses by more than 1.2x. We also anticipate that Nufarm would maintain positive sources over uses, even if forecast EBITDA were to decline by 15%.

We believe Nufarm can absorb high-impact, low-probability events with minimal refinancing. This is based on the group's strengthened balance sheet following the sale of its South American operations, generally prudent financial risk management, and generally satisfactory standing in credit markets.

We consider Nufarm to have the following sources and uses of liquidity available over the next 12 months, as of September 30, 2021:

Principal Liquidity Sources

- Cash balance of about A$724 million;
- Cash funds from operations of about A$236 million; and
- About A$420 million of committed undrawn facilities.

Principal Liquidity Uses

- Debt maturities of about A$237 million;
- Working capital outflows (non-seasonal and intra-year) of about A$500 million;
- Capex of between A$190 million; and
- Dividend payments subject to the group's capital management framework.

Covenants

Compliance expectations

We expect Nufarm to fully comply with all of its covenant obligations. The group has significant headroom against its financial covenants on all its debt facilities.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Sept. 30, 2021, Nufarm's capital structure consisted of about:

- A$490 million senior secured bank facilities (undrawn);
- A$209.5 million of group trade receivables securitization facility;
- A$134.7 million of available regional working capital facilities (drawn to A$27.4 million);
- US$475 million senior unsecured notes;
- A$143.6 million of lease liabilities recognized under Accounting Standard AASB 16 leases; and
- A$251 million subordinated NSS hybrid notes.

In addition, the company has about A$18.4 million of derecognized trade receivables held by third parties and about A$297.1 million of supply chain financing arrangements.

Analytical conclusions

Nufarm's capital structure includes a A$490 million senior secured bank facility (long-term issue rating of 'BBB-'), a US$475 million senior unsecured notes (long-term issue rating of 'BB-'), and A$251 million subordinated NSS hybrid notes (long-term rating of 'B+').

Issue Ratings - Recovery Analysis

Key analytical factors

Our simulated default scenario assumes a payment default in 2026 due to a meaningful and prolonged weakening in global demand from the agribusiness sector. Under this scenario, we consider that Nufarm would have adequate enterprise value to provide a very high recovery for the senior secured credit facilities.

The long-term issue rating of 'BBB-' and recovery rating of '1' on Nufarm's A$490 million senior secured bank facility indicate that lenders should expect very high recovery of principal (90%-100%) in the event of default. Security offered for the senior secured facility includes Australian, New Zealand, and U.S. tangible assets, except for assets pledged to the securitized receivables program's special-purpose vehicle, Nufarm Finance B.V., but including the subordinated loan provided by Nufarm Holdings SAS to Nufarm Finance B.V.

We rate Nufarm's US$475 million senior unsecured notes at 'BB-' with a recovery rating of '5', indicating modest (10%-30%) recovery prospects under our hypothetical default scenario.

Nufarm Australia Ltd. is the issuer of the tranche A notes and Nufarm Americas Inc. is the issuer of the tranche B notes. Nufarm Australia Ltd. and Nufarm Americas Inc. are financing subsidiaries of Nufarm Ltd., the guarantor of the senior unsecured notes.

The 'B+' issue rating and recovery rating of '6' on Nufarm's subordinated NSS hybrid notes also indicate lenders should expect negligible recovery (0%-10%).

Ratings Score Snapshot

Issuer Credit Rating

BB/Stable/--

Business risk: Weak

- Country risk: Low
- Industry risk: Moderately high
- Competitive position: Weak

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: bb-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Positive (+1 notch)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded		
	To	**From**
Nufarm Ltd.		
Issuer Credit Rating	BB/Stable/--	BB-/Stable/--
Nufarm Ltd.		
Senior Secured	BBB-	BB+
Nufarm Americas Inc.		
Senior Unsecured	BB-	B+
Nufarm Australia Ltd.		
Senior Unsecured	BB-	B+
Nufarm Finance (NZ) Ltd.		
Subordinated	B+	B
Ratings Affirmed		
Nufarm Ltd.		
Senior Secured		
Local Currency	BBB-	
Recovery Rating	1(95%)	
Nufarm Finance (NZ) Ltd.		
Subordinated		
Local Currency	B+	
Recovery Rating	6(0%)	
Revised		
	To	**From**
Nufarm Americas Inc.		
Senior Unsecured		
Local Currency	BB-	B+
Recovery Rating	5(20%)	5(15%)
Nufarm Australia Ltd.		
Senior Unsecured		
Local Currency	BB-	B+

Recovery Rating	5(20%)	5(15%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.