Full Year 2013 Results TRANSCRIPT

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Presentation

Operator

Thank you for standing by and welcome to the Syngenta Full Year 2013 results presentation. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, you will need to press star, one on your telephone keypad. I must advise you the conference is being recorded today, Wednesday 5th February 2014. I would now like to hand the conference over to your speaker for today, Jennifer Gough. Please go ahead.

Jennifer Gough

Good morning and welcome to the call. The slides to accompany the presentation are available on our website, Syngenta.com. If you look at slide two you see our cautionary statement. This presentation contains statements which may be subject to risks and uncertainties that could cause actual results to differ materially from these statements. We refer you to Syngenta's publicly available filings with the US SEC. I will now hand you over to Mike Mack, CEO, who will begin this presentation starting on slide three.

Mike Mack

Thank you, Jennifer, and good morning ladies and gentlemen. Thank you, first of all, for joining the call this morning and I look forward to discussing our performance in 2013 which was a challenging year for the company but one in which our strategy continued to demonstrate its value to growers. I'm joined on the call today by John Ramsay, our CFO, and also by our two Chief Operating Officers, John Atkin and Davor Pisk who between them divide responsibility for our four regions and eight key crops. They will comment on our commercial progress and will sum up some of the main insights from the last three years which we will build on then to take the strategy forward.

But first 2013; we continued to see sustained sales growth with integrated sales up 6%. When we look at the sales performance since the strategy launch, we're slightly ahead of our long term target of 8% compound annual growth. Emerging markets last year again registered a double digit increase. We saw the benefits of commercial integration across many of our territories, as you will see later in the presentation. Profitability in 2013 however, was affected by lower trade royalty income and non-recurring seeds costs. As a consequence earnings per share were 12% lower. While some of the headwinds were clearly one-offs, this is nevertheless a disappointing result. It has underscored the importance of a continuous focus on cost and capital efficiency in order to generate long term profitable growth. Today we announced a program to accelerate operational leverage across the business, enabling us to target an EBITDA margin in the range of 24 to 26% by 2018. John Ramsay will be talking more in detail in a few minutes, but first let me set the context in terms of our strategy.

Slide four – During these first three years we've laid the foundations for enhancing both growth and profitability with the establishment of an integrated business model. In addition to integrating the field force in all 19 territories, we've set up eight global crop teams. Some of you have been able to meet key members of these teams in the course of our recent crop updates. Their role is to maximise the global opportunity for each crop while deepening our expertise and innovation potential. We've already launched a large number of integrated offers across crops with the scale and scope of those offerings now increasing. While the pace of change within the company has been considerable during these first three years, we're pleased to have sustained sales growth throughout. At the same time we've maintained operating cost efficiency, as John Ramsay will show, while investing in growth and R&D to deliver broad-based innovation. What's more, we've been able to raise our 2020 sales target for the key crops from 22 billion to $25 billion as shown on the next slide, slide five.

We're firmly on track to meet this target which is based on both projections for our existing offers and detailed pipelines by crop. The implementation of our strategy has brought us closer to the customer and the expansion of our seeds business is further deepening the relationship with seeds the key purchasing decision for many growers. John and Davor will be showing some examples of this later in the presentation. In addition, over the next six years our global offers will be increasingly amplified through new business models and collaborations.

And now let me hand you over to John for some detail on the financials.

John Ramsay

Thank you, Mike. Although the business did make good strategic progress in 2013, the financial performance was below our expectations. Let me take you through the key points. Please turn to slide seven.

Reported sales are up 3% at $14.7 billion. Integrated sales are up 6% at constant exchange rates and comprised 4% volume and 2% price. EBITDA was 7% lower at $2.9 billion. And the margin was 19.7%. While this is disappointing, it was largely linked with one-off events which I'll talk more about in a moment. Net income at $1.6 billion was 11% lower. Earnings per share, stated before restructuring and impairment, were 12% lower at $19.30. This is in line with guidance given at our third quarter update in October, even though Latin American sales were lower than anticipated at that time. We are proposing a 5% increase in the dividend to CHF10.00 per share. Free cash flow for the year was $0.4 billion and the cash flow return on investment at 13% was once again above target. So for more detail on the sales progression, please turn to slide eight.

Price contributed $319 million overall. There was underlying volume growth in all regions with the strongest contribution coming from Latin America. The decline in Lawn and Garden volumes reflected the divestments made in 2012 which had a positive impact on profitability, as I shall highlight in a moment. On a comparable basis, Lawn and Garden sales were up 5%. The negative impact of currency on the top line was $238 million. Please turn now to operating income on slide nine.

On the left you can see that 2012 operating income, adjusted for the corn rootworm royalty of $256 million, was $2.3 billion with a margin of 16.2%. In 2013 volume and mix contributed $220 million to operating income. The price contribution, excluding glyphosate cost of goods increases, was $167 million. And as a reminder, we recover glyphosate cost increases in price broadly on a dollar for dollar basis. Savings from our current operational efficiency programs contributed $170 million. The increase in cost of goods sold includes the higher corn seeds production costs and the inventory write-down we talked about at the third quarter totalling $345 million. It also includes 40 million related to higher raw material costs due to the oil price. Cost inflation of $150 million came mainly from emerging markets and represents an increase of around 3% on the total cost base including fixed production costs.

Growth investments at $230 million included an acceleration of certain R&D projects to support the integrated strategy. In 2014 I expect growth investments to continue, mainly represented by increased R&D which will peak at the upper end of our target of 9 -10% of sales this year. Currency made a moderate positive contribution to operating income of $55 million in line with the guidance given at Q3. Overall, operating income was unchanged at $2.3 billion. The major component of other is a significant reduction in variable compensation across the company and this is because our financial performance in 2013 has not met our own expectations. This year, assuming an on target business performance, we would expect to resume this compensation element.

Although group profitability was lower, our Lawn and Garden business showed a significant increase in profitability as you can see on slide ten. On a comparable basis, sales were up

5% for the year. The divestments of Farfard growing media and the SHS distribution business in 2012 reduced sales by $108 million. The consolidation of DuPont Professional Products made a positive contribution of $29 million. These transactions were undertaken in line with our strategy of focusing on elite genetics and high value chemistry. The results are already plainly visible in a sharply increased EBITDA margin exceeding the 2015 target of 20%.

Slide 11 gives you the bridge from operating income to earnings per share. Net financial expense was higher at $200 million as a result of increased volume of hedging and higher levels of emerging market currency volatility. The tax rate was unchanged from the 2012 level at 15% and looking ahead, I would still expect the longer term tax rate to trend toward the 20% level. Restructuring costs for the year were lower at $141 million.

Moving on now to currencies, on slide 12 the chart shows you the period of currency volatility since 2007 which, as you can see in the grey bubbles, had a cumulative negative impact on earnings of over $400 million by the end of 2013. In 2013 the currency impact was moderately positive at $53 million despite the second half volatility in emerging market currencies, not least the Brazilian real. More recently, into the early part of 2014, the operating environment around emerging market currencies has become increasingly negative. Consequently, on the basis of current exchange rates, I forecast a negative impact from currencies overall in 2014 of around $50 million.

Please turn now to slide 13. Free cash flow of $385 million was after a significant working capital outflow of just over $1 billion. As you can see in the table on the right, receivables increased only slightly as a percentage of sales and this was offset by an increase in accounts payable. Around half of the rise in inventories was due to business growth, including restocking from rundown in 2011 and 2012. The other half was largely in fungicides and included production of Elatus in advance of the Brazil launch and will therefore be consumed this year. Capital expenditure of $727 million was in line with our guidance and reflects increased investment to meet growing demand, especially in emerging markets. Cash outflow for restructuring was similar to prior year. Acquisition expenditure was lower and related mainly to the acquisition of MRI seeds in Zambia as well as the finalisation of the Devgen acquisition. Financing, tax and other amounted to $523 million cash outflow and this was slightly higher than the income statement charge. Looking ahead, I expect a significant reduction in inventory in 2014 and this in turn will lead to substantially higher free cash flow generation this year of around $1.5 billion before acquisitions.

Slide 14 – Our competence in terms of future free cash flow generation is shown by the proposed increase in the dividend of 5% in Swiss francs and 11% in US dollars at end January exchange rates. We remain committed to ongoing increases in the dividend. The strength of our balance sheet with a net debt to equity ratio of 24% allows us to maintain flexibility for acquisitions and tactical share buybacks.

I will now hand over to John Atkin and Davor Pisk for some more detail on the regions and product lines.

John Atkin

Good morning everybody and thank you, John. Turning now to slide 16, at our crop updates over the past 18 months we've tried to deepen your understanding of our strategy. Today, against a backdrop of 2013 sales, I'll briefly summarise the main developments. I'll then review business performance by region before showing some territory examples which illustrate the power of our strategy. I'll then move onto the crop protection product performance and the pipeline and Davor will follow a similar approach for his crops and territories.

In Soybeans we have a leading offer to manage weed resistance and a strong portfolio of insecticides and seed care. In fungicides we're currently transitioning to SDHI chemistry. This will be an important driver for our Latin American business alongside the strong seeds platform now established in Brazil. In sugar cane we're leading the way in transforming planting operations and improving crop productivity. The original Plene concept has been delayed but we are working hard to meet the challenge of scaling up. In the meantime we've launched two new offers, PleneEvolve and PlenePB which, along with the expansion of the crop protection business, will drive growth. In cereals, in addition to the success of Axial for weed control, we have now launched two SDHI fungicides. Hyvido is a breakthrough solution for barley, now successfully launched in eight countries with further expansion across Europe to come. Specialty crops play to our strengths because of their wide crop and geographic spread. In 2013 sales were slightly lower because of a reduction in cotton acreage. We continue to build the business in crops such as coffee supported by strong value chain relationships.

Moving onto slide 17 and regions and territories. In Europe, Africa and the Middle East we achieved growth of 7% despite a cold, wet spring in the north. The already high operating margin improved further with good growth in high profit products such as Axial. In addition, in the CIS and South East we were able to increase prices to reflect the value of our offers to the grower. In Italy and Iberia we saw market share gains, and I'll be talking more about that later. In Latin America a robust soybean price has led to higher soybean acreage and positive growth sentiment. Price increases overall were sufficient to offset currency depreciation impacts and this was in spite of the volatile situation we encountered through the order taking period. The glyphosate market expanded in line with the uptake of herbicide tolerant traits. As we do not manufacture our glyphosate product TOUCHDOWN ourselves, the margin we make is below our average. Additionally, sales of fungicides were lower than our target mainly as a result of the delayed Elatus registration.

Overall, our results in Latin America were below expectations. On slide 18 I'd like to put that into context. Our crop protection business here has a history of seven straight years of share gain up until last year. Below market growth in 2013 reflected the transition in fungicides to Elatus with the delayed registration impacting our sales in Brazil by about $100 million in Q4. At the same time we constrained sales to Venezuela and Argentina as part of our financial risk management and this also had an impact of around $100 million. With regard to Elatus, we have just reached a critical milestone with the conclusion of the public comment period and we expect the registration process to be completed this month. We will therefore be able to expand our demonstration plots in advance of a full launch for next season. Elatus has shown best performance versus all established and new products. It will set new standards for control of soybean rust.

In sugar cane we continue to gain share in a market that is currently being affected by low sugar and ethanol prices. Now, the bar chart clearly shows the success of our integrated commercial team in driving our seeds business. Our corn traits are expanding and in soybean we saw strong growth and share gain following the introduction of a new business partner model in Brazil. All this underpins our target of continued double digit growth in Latin America through 2020.

Slide 19 – I'll use three territory examples to illustrate the power of our strategy. Our seeds business has a value which goes well beyond sales. Farmers place a higher value on seeds than any other input. So having a seeds business, even a small one, helps us to build much stronger customer relationships. This is a feature of all the territory examples you will see today and is central to our global strategy. Iberia is not a territory we usually talk much about or if we do it's been in the context of the Southern European crisis. This has certainly had an impact on the crop protection and seeds markets as you can see in the grey bubbles beneath the charts. But over the last three years we've been able to consistently grow share in both, helped by a shift in distributor incentives from volume to share. And the sales force not only segmented the customers, they segmented themselves into key areas of competence, allowing a more effective use of our capabilities. We also worked hard on our integrated portfolio. Vegetables is one of the largest crop segments in Iberia and we already have a complete integrated offer including biologicals. In cereals we have been expanding our crop protection platform, including Axial, and are now preparing for the Hyvido hybrid barley launch.

Turning now to slide 20 and the two territories that for us make up East Europe with combined sales in 2013 of close to $1.5 billion. Here customer segmentation translates into a face to face approach for large farms with our technology directly adapted to the needs of each farm. Our commercial success is in driving level two integrated offers. We have IMI traits and herbicides in sunflower; we also have an early planting solution for corn, including seeds, with the vigour to withstand the cold conditions. Breakthrough innovation is coming in the form of vegetable stress management programs and the Contivo integrated offer in Hungary which includes adjacent technologies of fertilizer, machinery and financial services.

Slide 21 shows the evolution of our crop protection sales. I will not go into detail here but will just briefly describe the overall picture. Total sales growth of 8% was strong and was achieved despite adverse northern hemisphere weather in the first half. With regard to market share, we estimate that we lost around 0.5% in Latin America but held share overall in the other regions. In terms of profitability, the adverse mix effect is clearly visible in a sales growth rate of 26% for non-selective herbicides compared with just 1% for our high margin fungicide business. This was partly offset by strong growth in seed care, a smaller but also high margin business.

Turning now to slide 22 which show sales of new products almost doubling for the year; insecticide Durivo continues its rapid expansion with strong growth in the US and sales up by more than 60% in Brazil. Seguris is a full year SDHI fungicide controlling a number of major diseases in cereals which was successfully introduced in Germany in the first half. Our new seed care product, Vibrance, also an SDHI fungicide, saw sales surpass $120 million with launches in North America, Australasia and Central Europe. Peak sales potential for the products shown on this slide is over $850 million and there's more to come, as you can see from our chemistry pipeline on slide 23.

The total peak sales potential of our pipeline is over $2 billion and helps to underpin the $25 billion 2020 target. The most significant market for Elatus will be Brazil but registration across crops and regions, including cereals in Europe, is already progressing well. Peak sales will be over $500 million. Fortenza, based on the active ingredient cyantraniliprole, is a new broad spectrum seed treatment insecticide. Total peak sales of future cyantraniliprole based products are estimated at over $400 million with around three-quarters of that from Fortenza. Clariva is a breakthrough seed treatment nematicide coming from the acquisition of Pasteuria in 2012. It controls soybean cyst nematode which causes annual losses for growers of around $1.5 billion in the United States alone. We anticipate peak sales in excess of $200 million.

Bicyclopyrone is a new broad spectrum grass and broadleaf herbicide primarily for North America which will build on Syngenta's leadership position in corn herbicides with the Callisto family. Subsequent use will be broadened to include cereals. Total peak sales are targeted to be above $250 million. With Oxathiapiprolin we are developing a new range of fungicide products to control diseases in high value specialty crops such as potatoes and grapes. First launch is expected in 2016 with peak sales anticipated at over $100 million. Importantly in our fungicide pipeline we have a fourth SDHI. This product is a broad spectrum fungicide offering outstanding disease control across a wide range of crops. First launch is targeted in 2018 with peak sales of more than $300 million.

And now it is my pleasure to hand you over to Davor.

Davor Pisk

Thank you, John. Please turn to slide 25. Reported corn sales were unchanged in 2013 but adjusted for the lower trait royalty income, sales increased 7%. Growth was driven by a market leading selective herbicide, in particular Callisto, and by seeds notably in the emerging markets. Our seed supply in the US was constrained by drought but we made significant advances in the marketing of Enogen for the ethanol industry and Artesian for water optimisation. Diverse field crops have traditionally been weighted towards seeds, particularly our leading sunflower hybrid with crop protection playing a relatively small role. We're now significantly expanding the scope of both businesses as I shall show you in a moment. Similarly in vegetables we are building on a strong and highly profitable seeds position to expand the use of crop protection, including seed care and biologicals. And finally rice, with the ongoing success of GroMore crop protection protocols, was supplemented last year by doubling of seed sales, reflecting the acquisition of Devgen and continued adoption of the Tegra program.

Slide 26, starting with North America which showed underlying growth adjusted for the trait royalty income of 5%. There was ongoing good growth in crop protection with strong selective herbicide demand as a consequence of glyphosate resistance. The operating margin reflects low royalty income and the higher seeds production costs and inventory write-down mentioned earlier. The reduction in seeds cost will lead to an improvement in margin in 2014. Asia Pacific had a strong performance with an acceleration of growth in the fourth quarter and double digit growth in the emerging markets. Both our rice protocols and our corn seed business are expanding rapidly and growth in the high margin ASEAN countries contributed to an improvement in profitability.

Like John, I'd like to illustrate how our integrated strategy is leading to new offers in the field, starting with a developed market example on slide 27. Our Canadian business is founded on a leading herbicide offer with ongoing growth in Axial and on best in class seed care, including most recently the launch of CruiserMaxx Vibrance. We're now building on a strong CRM model an in depth grower knowledge to expand our cereals and canola presence. This means entering the seeds market for these crops which are used in rotation alongside pulses. As shown in the table, bottom left, the total approach offer will generate extra value not just in terms of seeds but also crop protection. We are already seeing that cereal growers purchasing Syngenta seed increase their crop protection investment by more than 150%.

Slide 28 - Since integration, sales in the ASEAN countries have grown at a compound annual growth rate of 12%. Our crop driven strategy has been aligned with government agendas particularly in the case of rice where we're actively driving technology adoption through integrated offers such as Tegra and GroMore. Our strong partnerships with local distributors enable us to reach millions of smallholder famers. Our capability building programs have been highly effective both in terms of in-house and third party representation. The scaling up of this business is driving a higher level of profitability. In addition, the development of our seeds platform is generating new opportunities for our broad crop protection portfolio.

Turning now to seeds by product line on slide 29, on an underlying basis, excluding the impact of lower royalty income, seeds sales were 9% higher. Looking at the broad seeds market covering crops globally, preliminary data shows that we have grown share in 2013. Corn and soybean sales on an underlying basis were up 7%. Corn sales were higher in all regions with particularly strong growth in Asia Pacific and Latin America. Soybean sales overall were slightly higher for the year with strong growth in Brazil offsetting lower sales in the US. The transition to the Roundup Ready 2 platform in the US is now effectively complete, positioning the business well for growth. In diverse field crops, an excellent performance by sunflower in the CIS and South East Europe reflected strong market recognition for Syngenta's leading hybrids as well as favourable spring crop conditions. For vegetables, a gradual improvement in developed markets was accompanied by rapid growth in the emerging markets of Africa, Middle East and Latin America.

Slide 30 – Let me now take a moment to update you on the situation with regard to two of our corn traits for which US grain trade associations have recommended a suspension on the grounds that they have not yet been approved for import in China. The first of these traits, AgrisureViptera, has been on the market and providing superior broad lep control for the last three years as shown in the upper chart. The second trait, AgrisureDuracade, is being introduced this year on a limited number of acres and represents vital innovation in terms of a new mode of action to beat corn rootworm resistance. The marketing campaigns for both traits are ongoing and we're working in consultation with the National Corn Growers Association. We will of course continue to pursue Chinese import approvals while urging the need for the alignment of international regulatory processes which would represent a sustainable solution to the current situation.

Moving on now to soybean seeds in Brazil on slide 31; sales have expanded rapidly as part of our integrated offer to large-scale growers. At the heart of this success is an acceleration in genetic gain which reflects the fastest breeding program in the industry. We're leveraging our leading crop protection portfolio and are developing high yielding offers, including adjacent technologies, with seeds at the core. Finally, we have adopted a new business model in Brazil to switch licensing business to Syngenta branded business. Branded seeds are higher margin and with additional potential coming from the incorporation of seed care.

Slide 32 – I'm pleased to report yet another year of strong growth in our sunflower business. As I mentioned just now, our blockbuster hybrids continue to expand helped by a longstanding presence in key modernising markets such as the CIS. We're building on this position by creating awareness of the value of crop protection which growers tended to overlook. We were early to market in launching IMI hybrids and are now combining these with a full chemistry launch. We're also developing integrated offers to tackle broomrape and to this end have opened a new broomrape centre at our R&D site in Switzerland.

Let me now hand you back to John Ramsay.

John Ramsay

Thank you, Davor. Future top line growth, as outlined by John and Davor, will provide operational leverage but I would like to describe to you how we intend to underpin improved profitability in coming years. I'd like to start on slide 34 with our record on operating expenses.

Since the company's creation we have consistently reduced operating expenses as a percentage of sales, as you can see from the orange line, with a further 70 basis points reduction at constant exchange rates in 2013. This has been achieved despite the growth investments that have driven the sales growth that is shown by the grey bars on the chart. The reported EBITDA margin during this period has been adversely affected by cumulative currency headwinds of more than 300 basis points. Underlying profitability has increased steadily until 2013 when it was impacted by the lower royalty income and the non-recurring seed costs at the gross margin level. However, we are determined to resume the trend of increasing profitability and have today announced a program to accelerate operational leverage as we continue to grow the top line.

Before going into some detail on the new program, let me provide you with a brief overview of our prior efficiency programs on slide 35. Since the creation of Syngenta we have successfully executed on four programs each of which delivered savings ahead of the original target and within the original cost projection. Starting on the left, the first program between 2000 and 2002 was directed at delivering merger synergies. Following this, two programs were launched in succession in order to extract efficiencies from the newly merged organisation. Most of the savings were focused on the crop protection, production and supply activities. The most recent program relating to the integrated strategy is now nearing completion and remains firmly on track. It is my strong conviction that these programs have played a crucial role in enabling Syngenta to evolve and modernise over time and I'm confident that our track record of delivery will continue with the new program announced today.

Slide 36 - The program targets annualised efficiency gains totally $1 billion by 2018. This will be equivalent to an EBITDA margin improvement of approximately 5% based on our long term sales plan. The first gains will be realised in 2015. The $265 million shown on the chart includes $75 million from our existing operating efficiency program. The new program will also enable a significant release of working capital as shown in the grey at the bottom of the chart. The total cost of the program will be around $900 million representing a savings return rate of over 100% and I expect around $80 million of cash outflow this year. The program has three components – two contributing two percentage points to the EBITDA margin and a third contributing 1%. I shall now cover each of these in turn on slide 37.

The additional seeds costs incurred in 2013 were, as we have explained in the past, largely weather related. However, we have identified a number of areas where we can become more efficient as we scale up the business, including production yield optimisation and improved production planning and execution processes. In crop protection we can make further gains through expanding global sourcing. And finally we will generate further savings from our established business services organisation. The total contribution from this component will be around $400 million.

In customer facing operations we will drive efficiencies in newly integrated sales forces through standardising processes and real time commercial information. Fully integrated demand management will enable efficiency and greater flexibility in satisfying customer demand. In addition, we will secure best practice principles and targeted execution in the pricing of our integrated offers. We've already successfully completed one country pilot with a second underway and based on this we anticipate the customer facing operations component will contribute around $400 million to EBITDA. But taken together with enhanced demand, production and order management processes for the integrated business we will also liberate around $600 of working capital.

We will further leverage the integrated R&D structure establishing simplified management processes and exploiting crop synergies. Technology platforms spanning crop protection and seeds as well as crops will enable further efficiencies to be realised. With the integrated organisation firmly embedded, we will be able to apply lean principles to the deployment of our resources. The total contribution from this part of the program will produce a productivity improvement of around 20%.

So let me conclude with the outlook on slide 38. In 2014 we expect sales growth for the integrated business at constant exchange rates to be similar to the 6% achieved in 2013. This illustrates our belief that the business can continue to grow at a healthy rate despite lower crop prices. The gross margin will improve as a large part of the additional seeds costs incurred in 2013 will not be repeated, and this includes the entirety of the $170 million inventory provision and part of the increase in production costs. Research and development costs will be at the upper end of the targeted range of 9 to 10% of sales. And with the reduction in inventory already discussed, free cash flow before acquisitions is forecast to be around $1.5 billion. We anticipate an acceleration of sales growth in 2015 and despite the setback in margin in 2013 we expect to be within our range of 22 to 24%, albeit at the lower end. Looking further ahead continued sales growth and operational leverage will allow us to target an EBITDA margin between 24 and 26% by 2018. We maintain our target of cash flow return on investment of over 12% with capital expenditure remaining at or below 5% of sales.

Let me now hand you back to Mike.

Mike Mack

Thanks. Please turn now to slide 40. You are already familiar with the icon here and the three levels of our integrated strategy. Naturally the most immediate gains have come from leveraging the combined field force and as we move into the next stage of delivery, we shall be building on the experience of territories which have been particularly successful. The examples that John and Davor shared with you, Iberia, Eastern Europe, Canada and ASEAN, together add up to nearly $3 billion in sales and are convincing proof of what can be achieved. When we look at these territories, some common themes emerge. A broad portfolio covering multiple crops is a starting point. Superior sales force capability is obviously important which means not just good people but also intensive training adapted to each market. We urge our teams to think like a grower and to put this into practice by implementing needs based grower segmentation. To reach the growers we also rely on strong partnerships with the channel and a real understanding on their part of what our strategy really means. Success at level one provides a firm foundation for driving levels two and three. Our broad portfolio puts us in the unique position to further develop fully integrated offers that deliver yield, quality and convenience. At the third level, breakthrough innovation, offers such as Tegra and Plene may take longer to scale up but they have the potential to transform the way crops are grown.

Please turn to the last slide, number 41. Today we've tried to give you an overview of what we have accomplished these last three years. There's plenty left to do of course but the experience to date will be vital in taking the strategy forward. For the next three years we remain clearly focused on growth and will be transferring the learning from the commercial success factors across the entire business. Our teams continue to identify a multitude of ideas and opportunities and we will concentrate on accelerating the most promising projects. At the same time we will accord priority to improving profitability. This means gross margin expansion and continued operating cost efficiency, both enabled by the operational leverage program.

From 2018 the distinctive offers in breakthrough innovation, which the strategy has already unleashed, will be delivered at scale. This underpins our confidence in our 2020 sales target of $25 billion for the eight key crops. Implicit in the target is the realisation of market share gains over the coming seven years. The growth in the business and the decisive actions we're taking to accelerate operational leverage will lead to sustained higher profitability represented by the EBITDA margin target of 24 to 26% by 2018.

That concludes our presentation today and I should now like to open the call up for questions.

Questions and Answers

Operator

Thank you very much. We will now begin the question and answer session. If you wish to ask a question, please press star, one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Your first question comes from the line of Sophie Jourdier from Liberum Capital. Please go ahead.

Sophie Jourdier – Liberum Capital

Morning. Yes, thank you. I wonder if I can just ask some questions about the US corn seed business please; I just wondered where you thought your market share ended up last year given your capacity problems and just how this year is shaping up so far. It looks like you had quite a good quarter in the fourth quarter. Can you just talk about that and perhaps what pricing is doing so far in the US corn seed market? Thank you.

Mike Mack

Our outlook as the dust settled last year and how we're seeing things now, Davor?

Davor Pisk

Yes, thank you Sophie. In terms of last year, we saw a broadly flat market share. We had less growth than we would have hoped in our branded position but a strong performance on the licensing side. In terms of this year's outlook, the order books are strong. It's obviously still early in the season, the campaigns are underway but we've got very strong orders, particularly for our Duracade product which is coming to market for the first time. We're sold out for that product. And on the pricing side we're seeing a slightly more modest pricing environment than we've seen in previous years, so more of the low single digits than the high single digits that we've seen in previous years.

Sophie Jourdier – Liberum Capital

Thank you and could I just follow up just on licensing; could I just ask what that was in 2013 in the seeds business and what the expectations are for this year as far as you can say? Thanks.

Davor Pisk

Yes, last year we were looking at around $170 million and we expect that to be slightly higher in 2014.

Sophie Jourdier – Liberum Capital

Thank you very much.

Operator

Thank you. Our next question comes from the line of Tony Jones from Redburn. Please go ahead.

Neil Tyler - Redburn

Hello, it's actually Neil Tyler. I've got two questions, please. Firstly, on the working capital. Just squaring your comment on the $600 million you're targeting combined with what you're talking about, the significant working capital release in 2014, I wonder if you can put a number around that 2014 working capital release number.

Secondly, the numbers in the cash flow statement with regards to the pension payment, the provisions that you've put against that, how should we think about those forecasting forward, the additional cash payment going into the pension and the other provisions?

Thirdly, on market share gains, you mentioned your growth target are predicated on market share gains. Can you be a little bit more specific about which regions and crops that applies to?

And then, finally, in your operating income bridge, the $153 million of other positive, you mentioned that you expect that to reverse based on your achievement of targets in 2014. Is that the correct assumption? Is that how we should think about bridging that in 2014? Thank you.

Mike Mack

Good morning, Neil. Maybe I'll start with the market share one and then ask John Ramsay to address the other three. On market share, of course time wouldn't permit this morning to go over every single crop, every single territory, both for crop protection and seeds market share evolution but if you look into the $25 billion ambition by the end of the decade and you understand, you know, John laid out some of the new products that are coming to market in crop protection, Davor described the evolution of our traits business, you will see that we have ambitions in virtually all of the eight strategic crops and in all of the markets that we're in.

So, there's no market for which we don't have an ambition to not only participate in that market growth but to expand that as well, particularly as we move from what we described as level one integrated offer, which is the benefit of combined sales for us, into levels two and three, which are much more differentiated and with the operational leverage programme that we announced this morning, we aim to get better at capturing value from these. So, part of the ambition is to see further price evolution for our integrated offers be a source of some of that profitability gain that we target as well.

So, we could... If you have a specific question about any given crop, we could talk to that but there's no part of it that isn't part of our ambition. I will say this - Asia Pacific has to grow strongly because that's where the growth is, in agriculture. That is still not yet tapped and of course rice and wheat, some of the crops that are not yet technified directionally are going to represent a big part of that. John, over to you.

John Ramsay

Yes, Neil, the first question in relation to working capital or, more specifically inventories, there's two parts to the communiqué. First of all, in 2014 what I was saying was that the run-up in 2013 will reverse, if you like, insofar as we didn't quite achieve our sales targets in 2013, so inventory, because of the long lead time, is clearly higher than it needs to be, so it will be corrected in 2014 and you can work on the basis of a 2% of sales reduction in inventory, broadly flat on receivables and payables, so at 2% of sales reduction in working capital, which gives rise to the substantial cash flow projection that we're making for 2014 of $1.5 billion.

The second part, you referenced the $600 million which I commented. That's quite separate and in addition to what I've said about 2014 and we're targeting to release that structurally from our working capital, predominantly, again, inventory as a consequence of our customer-facing operations component of our new programme.

The pensions payment, I think you can assume broadly that they'll continue at a similar level into the future and so far as the employment compensation is concerned, yes, what I'm saying is that we've paid a lower level of employee compensation as a consequence of not meeting our 2013 targets on the assumption that we'll achieve our 2014 targets, $150 million will reverse in 2014. Okay?

Neil Tyler - Redburn

Okay, that's very helpful, thank you.

Operator

Thank you. Our next question comes from the line of Rakesh Patel from Goldman Sachs. Please go ahead.

Rakesh Patel - Goldman Sachs

Hi, there. Just a couple of questions, if I may. I wondered if you could just circle back on the Chinese corn situation. I know historically it's not affected or curbed sales in Viptera but I wondered if you had seen any indication of growth now, erring on the side of caution, following these letters from the Grain Association.

And then, secondly, just in terms of fungicides, I wonder if you could talk a little bit about the market shares that you're expecting because of the slow product introductions last year or do you think now that you might miss the boat and that competitors have taken a lead on you? Thanks very much.

Mike Mack

Thanks. Good morning, Rakesh. Davor, impact of the grain freight letters on our current order position in the US?

Davor Pisk

What I can share with you, Rakesh, is since these letters have gone out, we haven't seen any negative impact on our order position in North America. As I mentioned earlier, the demand for Duracade is strong. Because it's first year of launch, we don't have a lot of volume available and we're sold out and order position, as I said earlier, hasn't moved since these letters were issued.

Mike Mack

John, market share behind this question I presume is fungicides in Brazil.

John Atkin

Well, let me be unequivocal here. I mean, we will gain share in fungicides over the next three years. With the introduction of our new SDHI chemistry, principally Solatenol or Elatus, as we call it, and then we've got the Fusha product coming later on and we've also got

Vibrance. So, I mean, these are excellent products and we certainly don't believe we've lost anything long-term here. It will be onwards and upwards as far as our fungicides are concerned.

Rakesh Patel - Goldman Sachs

Great, thanks very much.

Operator

Thank you. Our next question comes from the line of Virginie Boucher-Ferte from Deutsche Bank. Please go ahead.

Virginie Boucher-Ferte – Deutsche Bank

Yes, good morning. I've got a few questions. First of all, coming back to this China issue with Viptera and Duracade, I just wanted to know if you were anticipating any impact on your licensing business of Viptera and Duracade, especially with regard to Viptera because I think some players such as DuPont have already licensed in the trait and were planning to introduce it, I think, this season in North America. So, will these licenses take a more cautious stance on these traits?

Secondly, I wanted to know how the season is progressing in Europe. I know it's still early days but can you tell us how it has started? Talk about maybe the weather, how you see the volume and the pricing environment as well. And on Solatenol, could you please give us the peak sales potential by region, so Lat Am, US and Europe? Thank you very much.

Davor Pisk

Good morning, Virginie. In terms of our licensing income of Viptera, obviously we can't speak for what other companies may choose to do. We're not aware of any changes. I hope it's obvious to everybody on the call that in terms of the issue that the grain trade have raised, doing anything to withdraw Viptera from the marketplace this year will have absolutely no impact at all on the amount of Viptera that is present in the corn supply chain that may end up in China and we have to recognise that it doesn't actually achieve anything to suspend Viptera sales, given that we've got a history now of many years of sales in the US and of course a number of years of successful shipments to China but, to answer your question, we're not aware of any changes in strategy from our licensees.

Mike Mack

I just would like to add, as a practical matter I think it's worth saying that for many years many grain elevators in the US have had signs posted that says we would prefer not to accept Viptera. So, in this respect, even though this letter generated some news, there's absolutely nothing new on the ground with regard to Viptera. John.

John Atkin

Yes, Virginie, Europe started well. Mild winters always help our business. Things keep growing, herbicide market strong. But it is early. We won't really know exactly what's going on until we get well into March but it did start well. The Solatenol business, Elatus, we said over $500 million and we expect to exceed that very well, very strongly, and it'll have two major regions - Latin America, principally Brazil, and Europe. It really is the best thing that we've seen on soybean rust and it's extremely strong on European cereals. It'll also have uses in North America as well but it's principally Latin America and Europe.

Virginie Boucher-Ferte – Deutsche Bank

Thank you. And about the pricing environment in Europe this season?

John Atkin

It's okay. You know, Europe's a place where prices tend to be relatively high. I think we're managing our prices very well in our whole rebate structures but, you know, we can't expect massive increases in Europe, which is already a relatively high-priced market.

Virginie Boucher-Ferte – Deutsche Bank

Okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of Andrew Stott from Bank of America. Please go ahead.

Andrew Stott - Bank of America Merrill Lynch

Yes, good morning. I just want to come back to the gross margin commentary. So, the 240 obviously goes back but against that you've flagged nothing on crop protection raw materials. So, I just wondered what you think about your chemical costs in 2014.

Also, on R&D, you're saying the upper end of the 9% to 10% guidance, I mean, do we just plug in 10%? Because you're already at 9.4%, so I'm just trying to get an idea of are we looking at another step change or similar to what your base is?

And I have a third question. I think you said, John, in your commentary that compensation costs were lower by $150 million. I just wanted to double-check that. Thank you.

Mike Mack

Good morning, Andrew. I'll turn it over to John, the gross margin, and to give you a sense for the comp and the R&D but I just want to clarify something. You know, for years now we've said we would target R&D between 9% and 10% of sales and the nature of R&D is you really do have to get started early on each and every year and the outcome, whether it's 9% or 10%, always has to do with sales as opposed to the activity that we have in R&D itself but, John, if you could take each of those in turn then.

John Ramsay

Yes, just starting on the R&D, to follow on with that, I think, yes, simply I would plug in 10% for 2014. As I mentioned, R&D is one of the components of our new programme, so beyond 2014 we'll start to see improvements in productivity.

Coming back to the other two questions on gross margin, we're not expecting any material impact, either positive or negative, from chemical costs, at least not anything in comparison to the reversal of seed costs, which we mentioned.

And, yes, you're correct in terms of what you said in terms of the employee compensation. The $150 million saving, if you like, in 2013 will not be saved, if you like, in 2014 if we achieve our targets.

Andrew Stott - Bank of America Merrill Lynch

So, a swing of $150 million.

John Ramsay

A swing of $150 million, that's correct.

Andrew Stott - Bank of America Merrill Lynch

Yes, okay. Thank you.

Operator

Thank you. Our next question comes from the line of Thomas Gilbert from UBS. Please go ahead.

Thomas Gilbert - UBS

Thank you very much and good morning. I have four questions. I'll be brief. The capex to sales guidance for the long-term of 5%, John, can you just clarify whether that excludes or includes expenditure on intangibles.

The second question is on Pasteuria Bioscience. Can you give us an update on your sort of learning curve with this business, sort of trials in the lab versus trials in the field and which region you're most excited about implementing that into the integrated offer, the biologics offer. Just a quick update on where we are.

The third question is coming back to the R&D point and maybe in the context of wage inflation across the company, a higher R&D cost, is that project-related that we still have this peak level in 2014 or is there also a component of higher wages for agronomists or just putting the step up in context, project versus underlying wage inflation.

And then the final bit is on the level of inventory versus the capacity utilisation rate that you expect for your crop protection manufacturing facilities in 2014. And maybe you can talk about Solatenol. You obviously have one year worth of production sitting there. Does that mean you're not running the Basel site with Elatus/Solatenol in 2014 at all and is it fair to assume that the utilisation rate across the company in 2014 in terms of fixed cost absorption will be a bit lower in that you get the inventories down or does it not affect at all the way you think about your operating schedule for 2014? Thank you very much.

Mike Mack

It sounds like three questions, John, on the fixed cost base. John Atkin, if you could start with Clariva.

John Atkin

Okay, Thomas, I mean, our optimism about the product is based entirely on field results. We've got, you know, proof of concept now over three years, good return on investment for the growers and we're very optimistic. We said we could get to $200 million. It'll be mainly North America in the initial phase and in terms of our production, I think we've... we're on track to make this a profitable product as well. So, I think those are the major points.

Mike Mack

I think, secondly, on R&D wage inflation, first of all, there's no... We've got 28,000 employees around the world. It's not as if the R&D people, where they are located, are more expensive than the commercial people or the manufacturing people. So, that's not a... it's not functional issue, first of all, but when you think, Thomas, about some of the undertakings that we've had these past couple of years, we've significantly expanded the amount of work that we've done looking for interactions between biology and seeds and that would underpin these integrated offers that we have. That's the first thing.

We have done some step-outs in biologicals area and that's additive to what we've been doing before and to John Atkins's point earlier, in the crop protection pipeline, I mean, these are some significant new products that are coming through. We're very excited about them and, of course, they have to be now brought all the way through. So, research is one thing but getting them fully developed into products is another. So, in a way this is a good thing. As John Ramsay mentioned, our accelerating operational leverage programme is going to then further drive more efficiencies and productivity. We will be consolidating some sites. We've consolidated product registrations, we've consolidated regulatory, so there's a number of things the Company is doing in order to get some of that back. We do aim to have productivity on the one hand and efficiency on the other

John, the three cost questions.

John Ramsay

Yes, the first one on capex, the 5% refers to tangibles and excludes intangibles – intangibles as you know, tend to be somewhat variable and more ad hoc opportunities at the time. But it refers to tangibles. Just to give a little bit of context to that 5%, this isn't just a number pulled out of the air, this is, you know, related to our balance sheet strategy. It will, given our growth plans, result in improved asset turns and it will also ensure that we continue to keep our cash flow return on investment above our target of 12%.

The other one was in respect of inventorying capacity. Just as a general statement, I think we're, you know, utilizing our capacity at pretty high levels in terms of percentage of total productive capacity, which is one of the reasons why we're finding the need for slightly higher capex but maintained at that 5% cap. Insofar as the absorption of cost is concerned, if we achieve the target of 2%, bringing down inventory as a percentage of sales, then effectively there won't be the same rates of absorption into inventory in terms of the build-up in 2014 as there was in 2013. It'll be slightly less absorption than there was in the last year.

Thomas Gilbert - UBS

Thank you very much. Very clear.

Operator

Thank you. Your next question comes from the line of Patrick Rafaisz from Bank Vontobel. Please go ahead.

Patrick Rafaisz - Bank Vontobel

Yes, good morning, all. Three questions maybe. First on the new cost efficiency programme. These EBITDA saving targets, are they net of cost inflation or do they include cost inflation? Then, secondly, on the free cash flow generation, do you already have the view on 2015 and how net working capital changes should help free cash flow in 2015? So, should we expect $1.5 billion as kind of the run rate for the next two, three years or will free cash flow go down again? And then, lastly, is just a quick one. Maybe I missed that. The growth guidance for 2014, is that reported 6% or is that based on the underlying 8% for integrated sales? Thank you.

John Ramsay

Okay. First of all, Patrick, the cost efficiency programme, this is in terms of improving the EBITDA margin. I just want to be absolutely clear, so I understand what you mean by gross and net. It's not absorbing the natural cost inflation. So, the cost inflation that we will achieve, you know, the efficiency improvements on top of that, if that's clear.

So far as free cash flow beyond 2014 is concerned, clearly 2014 is going to benefit from the reversal of the build-up of inventory in 2013. So, I think prima facie, depending on EBITDA, then you wouldn't necessarily expect the same level in 2015 because you don't have the reversal. You know, our intention would be to keep our working capital, you know, flat prima facie going into 2015 but beginning to benefit from the operational leverage the $600 million will have some contribution to that as additional cash flow in 2015. I think that would be the best way of looking at it.

So far as our current forecast for 2014 is concerned on sales, then 6% refers to reported integrated business, excluding Lawn & Garden, at constant exchange rate.

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Patrick Rafaisz - Bank Vontobel

Yes, that's clear. Thanks.

Operator

Thank you. Your next question comes from the line of Andrew Benson from Citi. Please go ahead.

Andrew Benson - Citi

Thanks very much. Can you talk about the volume growth in the context of a very different grain price market and why effectively you believe that the growth is going to be irrespective of, if you like, farm profitability, which is, I guess, a key assertion. Can you explain also...perhaps I'm being a bit simple here but you've got $345 million of additional seed cost but you're only expecting $240 million of that to reverse, unless I'm getting it wrong. You talk about tactical share buybacks. Can you just clarify that? And you also talked about forex hedging costs coming into the financial line and obviously we've seen a lot more emerging market volatility so far this year, so is it probable that there'll be a much higher financial charge? So, perhaps if you can just talk about your expectations for financial charges as well this year. Thanks.

Mike Mack

Good morning, Andrew. Your first question, you know, why 6% impact, I mean, the sales and linkage to the commodity price and we've had this discussion many times, as you know, over the years and what we do know and are able to measure, and we've got a real good sense for, is grower sentiment and we can assess the capitalisation of growers and we have a view of pest pressure, of course, in any new products that we might have now coming out.

The Latin American business exited the year – the main season in Brazil was strong. We talked about our own situation but soybean growers, it was a big year for them down there and so those dynamics went well. As we look now about the northern hemisphere, which is the season right in front of us, growers are well capitalised. If you look at the seeds that they're buying and the order book that we have, then it's for those best technologies. Much ink has been spilt over the past couple of years about whether growers do or don't cut back on crop protection chemicals. Once they put a good crop in and I think the weight of the evidence and the argument is they will then do what they can to protect that crop to the very best of their ability.

So, yes, I appreciate that the commodity price is down from where it was 18 months ago but grower attitudes toward getting the most productivity from their farm doesn't seem set to look any different right now in February of 2014 than it did a year ago, which is why we're calling for, you know, robust growth relative to... certainly relative to ten years ago and the emerging markets, of course, for us continue to grow at double-digit rates. So, from that vantage point it is all systems green on getting to that $25 billion target.

John, the share repurchase of NFE and forex in the seeds cost?

John Ramsay

Yes, Andrew, on the seed cost, essentially two components make up the 345. There's a 170 write-off that we talked about in Q3. We also mentioned earlier in the year that the 2013 costs were fundamentally affected by the drought conditions, largely, again, associated with North America, not exclusively but largely, from 2012 and that resulted in 175 increase in cost, which gives rise to the 345. The 170 will reverse in the current year. The residual, some of it's to do with the commodity price but largely reversal over two years, just in terms of the inventory levels and the South American production, etc. So, that's how it works out, why it doesn't all reverse in one year.

In terms of... I'll deal with the forex point first and then come back to the share buybacks. Yes, you're referring to the forex impact on the net financial expense line in the income statement and that is different from the forex impact on our EBITDA. What happens on the net financial expense line is that you have basically the... When you invoice overseas companies internal within the Group and they have to remunerate back into dollars from their local currency, we hedge that as much as we possibly can but in emerging markets sometimes that's not fully possible. So, if you get movements in exchange rate, and it can be positive as well as negative, then you get a component affecting the net financial expense. Guidance for 2014 would be, given the emerging market volatility, to be slightly higher than 2013.

Coming back to the question of tactical share buybacks, I think your question was, what does that mean. I suppose the best answer, it means that we retain some flexibility to exercise some small share repurchases when we feel, you know, the balance sheet doesn't need the cash for acquisitions, etc., and we think it's appropriate to do so. It doesn't in any way detract from our fundamental returning cash to shareholder policy, which we've been consistent about for some years now, which is, you know, focusing on the dividend and hence why share buybacks are not a major feature of our strategy - dividends are, but we will retain flexibility for small repurchases. As you noticed, we've put the dividend up 5% in Swiss francs and I think it’s 11% at January exchange rates which is, you know, honouring the commitment to have a progressive dividend year on year, regardless of earnings volatility.

Andrew Benson - Citi

Thanks very much.

Operator

Thank you. Your next question comes from the line of Jeremy Redenius from Sanford Bernstein. Please go ahead.

Jeremy Redenius - Sanford Bernstein

Hi, this is Jeremy Redenius from Sanford Bernstein. Thanks for taking the questions. I have a few questions, a couple about margin targets and then one about fungicides. Firstly, I notice you talked about guiding towards the lower end of the 2015 margin target. I guess my question would be what are you seeing as leading towards that change in guidance.

And then, second, looking a little bit longer-term, could you help me reconcile your comments about a big cost savings programme with your comments about being in growth mode for the next few years? It sounds like in this case you're talking about growth investments will continue in kind of the same order of magnitude as they have over the past few years and then just be offset by the cost cutting programme but then I see you targeting a big step-up in EBITDA margins later in the decade. I'm just trying to reconcile those differences and how does the margin improvement really come about in the end.

And then, lastly, a more specific question about fungicides. In North America I understand you've benefited from, let's say, additional fungicide sprays, especially from corn and soybeans, more of a preventative mode or a plant vigour mode. I guess in the lower corn price environment, do you expect farmers to still be in that preventative type mode with fungicides? Thanks.

Mike Mack

Thank you. Davor, why don't you grab the fungicide adoption in the corn segment in North America first?

Davor Pisk

Yes. Growers have seen very good returns on their investment from fungicide applications in corn. It is sensitive to the corn price but where the corn price is today, we would still see robust usage of fungicide applications to help boost yield and provide some of that preventative treatment.

Mike Mack

And, Jeremy, your... You know, before I hand it over to John to give you a bit more detail on the link with the operational leverage programme to the margin targets, I just hasten to point out that this is Syngenta's fifth operational excellence programme. The Company has never been not operating in the context of one, so the good news here is we've done it well, we know it really well and as we've gotten bigger we have taken every opportunity to look for ways to get bigger more efficiently.

So, in this respect it is... it's something that we're very familiar with. We've been able to grow and get more efficient at the same time. And why now? I mean, three years on, after the integration of 2011 and as the dust has settled on the integration itself, we've been able to see a huge amount of opportunity to get more efficient in R&D in the production environment and now as well in our customer-facing operations to just make the integrated strategy efficient whereas the priority in 2011 and 2012 was to put those things together and to be clear about the kinds of integrated offers that we wanted to work on commercially as well as technologically.

John, on the margin targets.

John Ramsay

Yes. I think what Jeremy questions do, I mean, both of the first and the second question, be a little bit more expansive in the answer, Jeremy, look, let's be clear, we're putting this programme in place because we are now three years into our strategy and we have put the organisation in place, we have deliberated upon what aspects of ICS where we think we can be successful.

So, we now have an opportunity for really focussing the organisation on delivery as we continue to grow and specifically what we are saying is that we've had three years of putting additional investment largely in R&D into the business and the final year of that in terms of step-up is 2014, as we've discussed, and that's been necessary to give this strategy a boost. We're now going into a different phase where we can capitalise on that and exploit the organisation which is newly put together and really drive efficiency, very much like the period after the merger in Syngenta, where we spent some time really driving efficiencies after putting the basics in place. So, when we talk about the offset from the investments, yes, over the last three years we've had a programme in place to offset investments in growth. That is not going to be the case going forward in this programme. We've largely put the step-up investments in place, so therefore unlike the last three years you will not see the offset as you've seen in the last three years. This will be bottom line improvement in EBITDA margin, capitalising on all the last three years' work.

So, you ask about the differences. We described the 22% to 24% margin as a framework. It was a framework within which we were trying to operate as we invested in the business and we reorganised. This is different. This is the 24% to 26% target. The organisation is going to be driven by delivering that target but at the same time very much keeping its eye on growth. It's going to leverage the growth and make sure we're delivering the bottom line improvement. Okay?

Jeremy Redenius - Sanford Bernstein

Great. Thank you very much.

Operator

Thank you. Our next question comes from the line of Christian Faitz from Macquarie. Please go ahead.

Christian Faitz - Macquarie

Yes, good morning. Thanks for taking my question. Just one, please. Can you please talk about corn trends in Q1 in NAFTA and would you see the severe weather conditions in North America hampering Q1 sales? Thanks.

Davor Pisk

Well, look, thanks for the question. I think the... Clearly the weather in North America... you know, we're watching on the news as well as reading all our reports. It's a prolonged and harsh winter that's had a limited impact on our shipments, I would say. Generally the teams have worked extremely hard to ensure that our corn deliveries and our soybean deliveries go out to our customers as required and that's going well. In terms of prospects for the season, we would expect to see certainly not an early start to the year, most likely some delays to the corn planting season.

Overall, as I mentioned earlier, our own order book is strong. We're confident about demand for our technology, whether it be Artesian, which is really delivering extremely well; Enogen ramp-up continues to go to plan; and the demand for our Viptera and Duracade products, as I mentioned earlier. So, we think this is going to be a year that goes well for us and at the moment everything is proceeding to plan.

Christian Faitz - Macquarie

Okay, thanks.

Mike Mack

Thank you, Christian. Operator, we have time for two more questions.

Operator

Thank you. Your next question comes from the line of Ronald Koehler from MainFirst Bank. Please go ahead.

Ronald Koehler - MainFirst Bank

Yes, thank you. My first question is on seeds again. So, point number one, you said actually you have seen no impact on your corn seed business so far. How, let's say, is the risk that farmers might give back purchased seed or retailers might give purchased seed. How do you see that risk? Additionally, DuPont mentioned a very strong early order season and a pull forward of around $100 million sales for them in the fourth quarter from the first quarter. Would you see or would you expect a similar effect with your sales or was it quite normalised on the first quarter versus fourth quarter?

The second question is on Solatenol. If I rightly understood, you have around $300 million to $400 million inventories in fungicides, potentially most specific Solatenol. Would that imply that you see the $300 million to $400 million to be realised at sales in 2014?

And the third question is to the currency hit. You guide for a $50 million currency hit. Historically you have obviously many countries where you have dollar-based pricing, which means you counterbalance implications on higher prices. Is this currency hit a net effect, net of these price increases ability you see or is it a... or how should we actually look at prices and would you expect prices to move up and a bit in relation to currency and potentially also a bit how would you see your pricing environment overall in 2014, so should we expect another 1% to 2% price increase?

And, last not least, tax rate, 15%, once again much lower than you're guiding. You were able to beat it every year, whether there's some specific, let's say, tax provision relief or so, where we should expect a jump or how would you... let's say, a bit more precise outlook for 2014 on tax rate.

Mike Mack

Okay. John Ramsay, if you can take the tax rate. Davor, first the question on Duracade and whether or not we're expecting any returns and what about this fourth quarter shift and John Atkin on fungicide sales and how we're feeling about that. So, John, first on both the tax rate and the currency.

John Ramsay

The question on tax rate is that, you know, the pressures in the world are just building on tax generally, so we should anticipate the tax rate moving up and, you know, in 2014 I think it's... you know, where we should see as higher than 15% is the best I can say at this stage but below 20%. The currency impact on pricing, let me just say that in emerging markets there's a combination of dollar pricing. So, in South America we have dollar pricing generally speaking in Brazil and Argentina, elsewhere we don't.

So, when we get the reductions in currencies in Asia, for example, then the teams are pushing to get prices up, local prices in local currency, and that will be what we'll be doing during the course of 2014. Where we have dollar pricing, as long as the dollar pricing holds, which it normally does, then we do have a short position, given the levels of expenses that we have which, generally speaking, if you get movements in emerging market currencies, then you get correlation and that short position generally offsets the long position that we have in Asia and elsewhere, as long as emerging market currencies tend to go in one way in terms of being coordinated, as we've seen recently.

Ronald Koehler - MainFirst Bank

Just more precise, does this $50 million include any beneficial pricing effect or is it a figure without these potential price increases in non dollar-based countries?

John Ramsay

It's without.

Mike Mack

Your question then, Ronald, on inventory, so we're targeting to bring down inventory 2% of sales which, on a dollar basis, is between $300 million and $350 million of inventory reduction, a lot of it having to do with fungicide in Lat Am, which I think John Atkin already spoke to. And, Davor, the twin questions on Duracade?

Davor Pisk

Yes, I think on Duracade and Viptera. Well, look, first of all, it's very difficult at this stage of the year to say what's going to end up in terms of final plantings and returns. However, a couple of points, just to put this into proportion. First of all, on Duracade, as I mentioned earlier, this is the first year of launch. In any first year volumes are limited as we ramp up and scale up production. So, the amount of Duracade that we have represents single digits in terms of our total portfolio and the orders for that are very strong. This is a technology that is desperately needed by customers. It's a new mode of action for the control of root worm, which is a pest that causes enormous damage to corn growers across the Midwest. So, there's a very strong demand for this. People really want to see it on their fields in operation. So, given the limited nature of our plans for that, I would be surprised if we had anything untoward in terms of returns.

On Viptera, we also need to recognise that this is a product that has been established now in the marketplace three seasons, great broadlep control, again customers really appreciate it. And also domestic demand for corn, let's remember, accounts for the vast majority of corn production. So, whether it be bioethanol consumption, whether it be domestic feed production, these are 80% in total. Domestic US food-based is another 10%. So, there's only limited corn production that actually ends up in the export chain. So, that needs to be just taken into account when we put some sort of perspective around the noise that we're hearing about in the marketplace at the moment.

Now, your other question was around Q4 and Q1 deliveries. We didn't see any unusual change in the pattern of our shipments, so nothing to report on there.

Mike Mack

We have time for a final question, operator.

Operator

Thank you. Our last question comes from the line of John Klein from Berenberg. Please go ahead.

John Klein - Berenberg

Yes, hi there, good morning, thanks for taking my questions. I've got three questions. The first one, can I get a bit more granularity on the inventories? We've spoken about Elatus but maybe you can tell us how much of the inventory build-up ex-Elatus is related to Brazil? And then the second question is on collection rates. On the H1 call we spoke about that you were trying to increase collection rates on the Latin American market and I was expecting, actually, that that probably would have had a positive effect on the second half cash flow. Maybe you can update us on where you stand there. The third one is if we look into the operational income bridge, there is still the $230 million of growth investment that you took in 2013. How should we think about that going forward in number terms? Thank you.

John Ramsay

In terms of inventory granularity, a large part of the inventory build-up is associated with Latin America generally in terms of, you know, Elatus and some other fungicides. About $0.8 billion increase in inventory in the year, don't forget about $0.4 billion of that is actually to do with just business growth associated with the sales growth. Collection rates, well, I think we're pretty pleased overall with the levels of collections across the Group. We've done extremely well in CIS where there's been, you know, difficult conditions.

We've done extremely well in South Europe where there's been difficult conditions and there's been increasingly difficult conditions in Argentina and to a lesser extent in Brazil. I think between Argentina and Brazil our DSOs at the end of the year are just slightly higher. Credit there is reducing but we're well on the case and have many schemes in place to help us with our collections there and, you know, as we mentioned, in terms of the Q4 sales, we did hold back some sales in Venezuela and Argentina just to ensure that we kept the credit in the right position.

In terms of growth investments, well, you will see some increase in the future in terms of R&D in 2014 but, as I said in response to a previous question, the step-up in growth investments is going to reduce because we've stepped up in association with the integrated strategy. We will see some more going into R&D in 2014 but you'll see less in the future because the need for it will be less and that doesn't take anything away from – we will continue to fuel growth where appropriate but the step-up that we've seen in the last few years will be at low levels.

John Klein - Berenberg

Perfect. Thank you.

Mike Mack

Thank you. That concludes the presentation this morning. Thank you for joining the call. If you have other questions, of course please feel free to call Jennifer Gough or Lars Oestergaard in Investor Relations and we look forward to speaking with you next in April. Have a good day.

Operator

Thank you very much. That does conclude our conference for today. Thank you for participating. You may all disconnect.

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