Third Quarter 2013 Results
TRANSCRIPT

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Presentation

Operator

Thank you for standing by and welcome to your conference call. I'm now going to hand over to Miss Jennifer Gough, your first speaker for this morning. Please go ahead.

Jennifer Gough

Good morning, and welcome to the call. Today's presentation will be hosted by Mike Mack, CEO and John Ramsay, CFO, and the slides to accompany the presentation are available on our website. Slide two is the Safe Harbour Statement, which tells you the presentation contains forward-looking statements which may be subject to risks and uncertainties that could cause actual results to differ. And with that I'll hand you straight over to Mike, who will commence the presentation, starting on slide number three.

Mike Mack

Thank you, Jennifer, and good morning, ladies and gentlemen. I'm pleased to report a strong quarter in terms of sales growth, which accelerated compared with the first half. Growth occurred in all regions and product lines. Most importantly, we saw a really good start to the season in Latin America, where sales were up 17%. This was achieved against a backdrop of lower crop prices as well as currency volatility. When we look at the reason for these lower crop prices, it's clear that the expectations of a big corn harvest in the US is playing a major role.

The crop caught up surprisingly well after a late start and yields now look directionally set to be headed toward near-record territory. This is also reflected in our own corn seed production, where yields of corn seed planted for sale in the upcoming season are significantly surpassing our earlier estimates and we expect this to be an industry-wide issue. In view of this, we're taking a conservative approach and this year intend to write down seed quantities in excess of expected sales. John Ramsay is going to give you a bit more detail on this, in a little bit.

With emerging market currencies also working against us during the quarter, full-year earnings won't meet our expectations. Now, that said, as these are essentially one-off items, they won't have an impact on our longer-term targets, which we're re-affirming this morning. Let me now hand you over to John for more detail on the quarter. John?

John Ramsay

Thank you, Mike. I will start with a summary of sales in the Quarter and for the nine months, on slide four. Sales in the third quarter at $2.9 billion were 11% higher at constant exchange rates and up 8% in reported terms. I shall come back to the currency impact of 3%, on the next slide. The 11% increase in integrated sales, excluding lawn and garden, comprised 8% volume and 3% price.

Sales for the first nine months of the year were 5% higher, at constant exchange rates and up 3% in reported terms. This comparison includes the impact of corn rootworm trait income in 2012. On an underlying basis, nine month integrated sales were up 8%. Slide five shows the currency volatility, which has affected many emerging markets this year and Brazil in particular. Our Crop Protection sales in Brazil have historically been dollarized, meaning that the exchange rate movements are passed on in price.

Over the last six months, however, the Brazilian real has depreciated by 11% against the dollar and moved very quickly with high volatility in the critical period between order-taking and invoicing. Consequently, we were not always able to capture the full dollar price. In order to reflect this economic reality we are now recognizing Brazilian exchange rate movements as such, while continuing, of course, to operate in dollars and adjust pricing accordingly.

In July, we indicated that we expected a full year currency benefit at the EBITDA level of around $100 million. In taking into account all of the emerging market currency movements, this figure is now reduced to around $50 million, with a further emerging market currency effect on net financial expense of around $25 million.

Turning now to slide six, which shows the growth momentum of our integrated business in all regions. And I'll start with North America, where sales are up 9%. We saw strong pre-season demand for selective herbicides, helped by increased awareness of weed resistance. Weather conditions in the third quarter were generally wet, resulting in fewer insects, but higher disease pressure. In Europe, Africa and the Middle East, sales were up 4%. In Italy we have gained share in a market which is now slowly recovering. In Southeast Europe we continue to see strong growth across the portfolio.

Sales in Northern Europe, on the other hand, were affected by low disease pressure. In Asia Pacific growth has been driven by technology adoption in the emerging markets. ASEAN countries and China are showing good momentum and South Asia sales grew significantly, helped by a good monsoon. In Latin America we have made a good start to the season. High grower profitability underpinned by a relatively robust commodity price is expected to lead to record soybean acreage. And this year we expect to register further market share gain for our soybean seeds. Sales of both selective and non-selective herbicides, applied earlier in the season, were also strong.

So this performance confirms our track record in Latin America and the key elements behind our success are summarized on the next slide, slide seven. For the key crops of soybean and corn, we have a leading crop protection portfolio. Commercial integration and the launch of new corn traits have contributed to share gains in seeds. And our reach goes well beyond these crops, for example, through leading innovation in sugar cane and a broad platform of technology for specialty crops.

And let me remind you that our sales in Brazil are recognized on consumption, so that when we report sales there is no distortion from channel inventory build. And our rigorous credit management model has ensured an excellent collections record and hence the confidence to go on expanding the business.

Slide eight shows you how the emerging markets of Asia Pacific have resumed their growth momentum, following subdued growth in 2012, due largely to range rationalization. We're well-placed to be at the forefront of technology adoption in the region. We have a fully integrated corn portfolio with high-performing tropical germplasm accompanied by yield-enhancing protocols. Our leading rice franchise, based on the GroMore and Tegra offers, is being expanded through integration of the Devgen seed portfolio. And vegetables provides us with a unique opportunity to drive market value through intensification.

Please turn to slide nine for crop protection sales by product line. Growth of 14% in selective herbicides was driven by strong demand on corn and soybeans in the US and Brazil. In non-selectives, the main driver was Touchdown, which benefited from strong demand and a shortage of competitor supply. As you know, we do not manufacture glyphosate and, as a result, the margin on this business is relatively low.

Fungicide sales were up 6%, with the main Brazilian season still to come. Amistar Technology expanded in all regions, with a particularly strong contribution from the US. In insecticides, we are seeing strong global demand for Durivo, partly offset in the quarter by low US insect pressure. And seed care sales were driven by the expansion of our new SDHI product, Vibrance.

Slide ten. In total, sales of new crop protection products doubled in the first nine months of the year. Durivo tripled in the US and was up 70% in Brazil. Following a successful launch in Germany, sales of the fungicide Seguris have also tripled. Vibrance achieved sales in excess of $100 million in the first nine months and during the third quarter obtained 30 new crop registrations in the US and Annex 1 approval in the EU.

Elatus, based on Solatenol, is already sold in Paraguay and has now been approved in Bolivia. We are, however, still awaiting Brazilian approval, which will be key to the further expansion of our fungicide portfolio, as the next slide shows.

Slide 11. Seguris, Vibrance and Elatus are all members of the SDHI chemical class, which is the fastest-growing area of chemistry. We are later to market than our competitors, which is one of the reasons for the low growth in fungicide sales over the last two years. However, the products we are now bringing to market offer superior potential and by 2016 we will have the broadest SDHI coverage in the industry. Isopyrazam is sold under different brands for a variety of crops and has unique double-binding properties.

Vibrance is already recognized as best in class for seed care. Elatus will mark a step change in soybean rust control and will be expanded to other key crops. The potential of these products is broadened by our strong portfolio of mixture partners, which in turn expands the scope of our patent protection. In total, we see peak sales potential of our SDHI fungicides in excess of $850 million.

Turning now to seed sales by product line, on slide 12. Strong growth in corn and soybean in the quarter was driven principally by soybeans in Brazil. The year to date sales comparison is affected by the corn rootworm royalty in 2012 but on an underlying basis, sales were up 5%. Diverse field crops showed modest growth in the low season after a very strong first half. Growth was driven by oilseed rape in Europe. And sales of sunflower in Argentina were lower owing to a general acreage reduction. Vegetable sales continued to advance, led by Brazil, and by the watermelon segment in the US.

Slide 13 gives you some more background on the development of our seeds business and the charges that we have incurred this year. Over the last ten years our global seed sales have grown at a compound annual growth rate of 15%, to reach annual sales of over $3 billion. We have brought to market leading technologies in a number of crops, including corn. In the last 12 months, however, our US business has been affected by the severe drought of 2012 which, as already announced in July, contributed to a $175 million increase in production costs for 2013.

This year we planned for a significant increase in production, but the exceptional size of the crop is well ahead of plan. The write-down of production in excess of expected sales gives rise to a charge of $170 million. In 2014 the outlook for the business is positive. The market reaction to the launch of our new corn rootworm trait, Duracade, has been enthusiastic and we will focus in particular on expansion of our RIB offers and of Enogen for the corn ethanol market.

Let me finish now, with the earnings outlook, on slide 14. As the Latin American season gathers pace, we see continued momentum going into the fourth quarter, which represents over 40% of annual sales in the region. Subject to achieving our targets for the quarter in Latin America we expect to achieve full-year sales growth in line with our longer-term objective of 8% for the integrated business.

At this level of top line growth we would expect full-year earnings per share to be close to last year's underlying level of $19.70. In 2014 we will see improved profitability, as the one-off charges relating to the seeds business largely reverse. In crop protection, product mix will improve with the expansion of our new fungicide offers and we will also see benefits from operational leverage and I look forward to talking more about that in February.

This year we expect cash flow return on investment again to exceed our target of above 12% and we maintain our EBITDA margin target for 2015 of 22% to 24%.

And I will now hand back to Mike to conclude the presentation.

Mike Mack

Thank you, John. Please turn now to slide 15. The upper chart shows the movements in crop prices over the last 12 years, including the downturn over the past year as a result of the uptick in global grain supplies, reflected in the stocks-to-use ratio on the lower chart. However, the top chart also shows you that over the last four years farmer profitability has remained robust. This gives our customers significant support in the current environment and underpins their ability to continue investing in technology.

Moreover, while grain production is inherently variable from one year to the next, growth in demand remains steady, most notably in the emerging markets, which today represent around 50% of our sales. And even in the developed markets increasing recognition of the need for greater resource efficiency is an additional spur for the development and adoption of new technologies. All this underpins our confidence in the achievement of our longer-term sales target, shown on slide 16.

As you know, we're targeting sales of $25 billion in 2020 for our eight key crops. This equates to continuing a compound annual growth rate of 8%. In addition, sales of our lawn and garden business are expected to exceed $1 billion by 2020. Over this period we expect to gain share across crops in an expanding market. At the same time, we will be highly focused on margin expansion and on increasing cash return to shareholders.

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

Questions and Answers

Operator

Thank you and if you would like to ask a question then please press star and one on your telephone keypad and wait for your name to be announced. That's star and one on your telephone keypad, if you have a question.

Mike Mack

Operator, I'm imagining we do have at least one question.

Operator

We do, indeed. And the first question comes from the line of Patrick Rafaisz from Vontobel. Please ask your question.

Patrick Rafaisz – Vontobel

Yes, good morning, everyone. I have a number of questions, First: can you just confirm, so that we are absolutely clear, that your top-line guidance still refers to reported growth, not underlying? Then, second question, regarding FX on the net financial expenses of $25 million, how much would you say is the total net financial expense, then, for the full year? Then, on SDHI technology, you mentioned the peak sales at $850 million. How much of that would actually be Solatenol and how do you see the timeframe for SDHI to reach that peak sales potential? Thank you.

Mike Mack

Good morning, Patrick. Let me take the SDHI one and maybe John can talk to the currency one and the sales outlook. Solatenol we expect, first of all, to be more than $500 million and we've got registrations, John mentioned already, in Paraguay and Bolivia. But, of course, the big market, Brazil, not only in terms of size but in terms of the size of the disease pressure down there, Asian soybean rust, I'm hesitant to answer when are we going to get to $500 million because we don't even have the registration yet in Brazil. We're waiting on it by the day and we expect to be able to achieve sales, perhaps even this year, of up $100 million.

So when this gets registered it's going to take off really nicely, but we have to get that registration first. Hopefully, you'll be able to join us in Brazil later this year, where I think you would see the benefits of this. So it's going to be a blockbuster, there is no question about it, and it's just a question of now getting the registration and getting our production ramped up. John, on the FX?

John Ramsay

On the FX, on the NFE, Patrick, the additional $25 million from the emerging market currencies in the Third Quarter would take the full year NFE to 190 as a guidance. Your first question, in relation to top-line reported, the guidance that we referred to is reported in CER.

Patrick Rafaisz – Vontobel

Okay, thanks a lot.

John Ramsay

Thank you, Patrick.

Operator

The next question comes from Tony Jones from Redburn. Please ask your question.

Tony Jones – Redburn

Good morning. Tony Jones in London. I've got a couple of questions, as well. Firstly, going back to FX, with this being fairly volatile, can you help us with the potential impact going into 2014? And then on seeds, with the strong availability, will that have an impact on price, given that better availability of materials tends to lead to lower prices for many products? And then, also, based on the sort of information you've got from negotiations with your major distributors, are you still targeting 1% price in the coming year at a group target? Thank you.

Mike Mack

Good morning, Tony. First, on the seeds pricing, of course that is a rather current matter. By that I mean the main part of the season is just getting underway. One of the things that we have observed over the years is that the seeds pricing as such is not completely responsive to the production supply. Which is to say when costs go up it's not unusual for seeds not to recover all their cost. We've seen that over the years but, equally, when costs go down then the price doesn't tend to fall in seeds, either. Prices tend to be sort of modestly upward year on year and it goes up quite a bit more if and when you're able to introduce an entirely new trait, a new product concept.

So one of the things we're going to be looking at in 2014, of course, is a more favourable cost basis and John can tell you more about that, momentarily. So you ask would I expect seed pricing to reflect a production environment; I will tell you there is going to be plenty of availability of seed because of the production environment that John described. I wouldn't expect that availability, though, to be translated, then, into somehow major price skirmishes. That's not the way farmers buy seed, on the basis of price. One of the things that we also have going for us, as John mentioned, is the uptake of the bigger refuge in a bag offer.

So between having the best corn insect trait offer in the industry right now, a strong supply of hybrids, we're also meeting this market demand for RIB, as well as the uptake in the Enogen offer that we have, all that is looking very favourable. With respect to negotiating with our distributors and dealers around the world, yes, that is also in full swing. We tend to conclude that in the Northern hemisphere in the November time period, but most of that is driven by our distributors and dealers pleased with the outcome of the 2013 season and they are. As we go around the world, Syngenta has got a great product line and good service and good people, so that 1% is what we're calling for on a full year basis.

At this point in time that market is still in front of us, but we know enough about those negotiations to say 1% feels absolutely good to go. John, on FX?

John Ramsay

Tony, FX, I think your question was referring to 2014. It's always difficult to give a prediction when you have so much – especially these days – currency volatility. As you know, we're long emerging market currencies, short the Swiss franc, but we do have a short position in Latin America when we're pricing in dollars, so some protection against that. Just to give you an indication, if you were to run the exchange rates today against our 2014 profile, then I would expect currency to be neutral year on year 2014 on 2013. But I can't possibly predict where currencies will be as we go into the year and through the year.

Tony Jones – Redburn

Thanks very much.

Operator

The next question comes from the line of Jaideep Pandya from Berenberg Bank. Please ask your question.

Jaideep Pandya - Berenberg Bank

Thank you, good morning. I just have a question on fungicide market share. Can you tell us, in the last 12 to 18 months, how much market share have you lost because of your comment that you were a bit slow with regard to product introductions and maybe your competitors have introduced new products? And when you say that your product portfolio will be most diverse in the next couple of years, what sort of market share are you targeting then? Thank you.

Mike Mack

We've never sidestepped the 0.5% market share gain that we are targeting for the basis of our integrated crop strategy. And I think what John indicated was that within the category of fungicides, owing to the fact that our two largest competitors, BASF and Bayer, have themselves come out with their SDHI category. And what we're particularly pleased about is that we regard the products in family, in the brand ladders that we have, as going to be soon the superior offer in the marketplace. So that market share evolution is going to be recaptured and you can bet that is very much on our mind, with... I wouldn't guess right now where things are going to land in Brazil, because that market is still right in front of us and I don't know whether or not we're going to have our own Solatenol registration and that's highly relevant.

Our overall fungicide market share has held up rather nicely. What we have done is to lose some position versus these other two. So that has been very new, but our overall market share in crop protection is up vesus last year and it was up last year versus the year before. So the entire family of products is holding up very nicely.

Jaideep Pandya - Berenberg Bank

Thank you.

Operator

And the next question comes from the line of Sophie Jourdier from Liberum Capital. Please ask your question,

Sophie Jourdier - Liberum Capital

Good morning. Two questions, please. The first one: just on this US corn seed write-down, I'm just sort of interested in your assumptions behind that because, obviously, you're trying to gain market share in this segment and presumably having a lot of seed helps you to do that. So just could you tell us where you think your market share is after the latest season we've had? I think it used to be around 10%, is that still the right number? And what... are you assuming you can increase market share in 2014, just so I can understand how you come to that write-down.

And the second question is actually on 2014 and your comments of improved profitability. Could you help us understand what you see as the key drivers behind that and also whether you are including that write-down that you had this year in your definition, I guess, of underlying profitability or not, in thinking about next year? Thanks.

Mike Mack

Sure. I mean, Sophie, first of all, the... how do we take the decision on the amount of the write-down? It may not be intuitive but, of course, a corn crop puts on most of its weight at the back end of the season, so from that time period, really, at the end of August until the end of September, this is when the supply variance occurred. And if... so, as a broad statement, if we were intending to grow our volume by 10% and we ended up growing 130% of our plan of course, virtually everything over that excess is exposed to the write-down. But we do target market share evolution next year; our overall market share is at or just below 10% but I've always been a little bit reticent to get deeply into market share numbers, for a couple of reasons.

First of all, you yourself have seen how wildly the swings on the corn acres have moved. The business of whether or not the corn acres this past year were 96 or 97 or 92 was up in the air for quite some time and until you know what the denominator is, the outcome of the market share estimation isn't obvious at all. We lost a bit of pace last year and we were clear about that in the first half and that was on account of the drought. We lost some of the new stuff that we were bringing through.

What is working for us this coming year? We've got Enogen, it is in a number of mills now and the value proposition is getting proven out. The Enogen that does go into these ethanol plants is being tied and brought through on our own corn acres. So I don't think I need to remind you that the opportunity for ethanol plants to make more money in the current political and economic condition is really strong, so that's a... we feel good about that. We feel exceptionally good about the introduction of Duracade. Our corn rootworm performance is second to none now in the industry and the expansion of the RIB uptake I think puts us in a good position to target that increase.

So I'm not going to pin myself to a number today, beyond to say yes, our sales plans incorporate market share evolution in 2014. How big is the acreage going to be? When are people going to get started planting? My goodness, all of that is still right in front of us.

Sophie Jourdier - Liberum Capital

Right; thanks for that.

Mike Mack

John?

John Ramsay

Yes, I think, Sophie, your second question was a bit more colour in respect of the statement about improved profitability in 2014. I think, first of all, a specific answer to the question: I am including in that that there will not be a repeat of the write-down but, more important, there will, if you remember, be some improved cost on the corn seed side because of the costs in 2013 are affected by the drought. So fundamental costs we're charging to income this year are high because of the drought and the levels of winter production that we had.

And in addition we'll have a benefit because the costs as a result of the harvest this year have been spread over a greater volume. So there will be a fundamental improvement in seed costs. But, in addition, there will be continuing growth in the business, there will be growth in fungicides and seed care, and this impact that we've seen in 2013, largely associated with glyphosate and we've had 50% growth in glyphosate in 2013, that won't repeat, although glyphosate has a sort of dilutive effect, it's not going to be as significant in the future as it was this year.

I think the most important thing to say about operational leverage is fundamentally about where the company is on this path, because the last three years, including this, have been very much about establishing the ICS strategy, very much about getting our prioritisation right, very much getting the organisation together, in terms of accessing what we believe is an enhanced market opportunity.

As we come out of 2013 into 2014 – 2015, the organisation is going to be turning its attention much more to delivery and getting the execution in place and that lends itself very much to capitalising on some of the opportunity we have on operational leverage in a very determined way. So I would see all of that having a little impact in 2013 and importantly in 2014 and a bigger impact as we go forward beyond that.

Sophie Jourdier - Liberum Capital

Brilliant. Thank you very much.

Operator

And your next question comes from the line of Andrew Benson from Citi. Please ask your question.

Andrew Benson – Citi

Thanks very much. The... you've defined on slide 14 the EPS as being excluding restructuring impairment charges in getting to 19.7.But, presumably, your guidance for 2013 includes the impairment charge for the seeds write-down. That's the first question. Secondly, you've given a very precise number on the write-down in a very uncertain market and I just was wondering the wisdom of that. Why don't you just really go for it and try and build a more aggressive share? You've got the seeds to do that instead of sort of giving up before you've even completed the harvest of the seeds you're planning on selling next year. It just seems a very... an unusual move. And, thirdly, just on Brazil into the Fourth Quarter. I think, John, you were saying that at the interim stage you were expecting 20%-plus growth in the second half into Brazil. I'm just wanting to confirm that if I was right, that that's still on track.

Mike Mack

Andrew, maybe I can start with the why... we were clear when we talked about the write-down. First of all, it is a conservative approach; we already have now built in some market share evolution on account of the things that we think we can absolutely deliver, but because this is an industry-wide phenomenon, there have been a lot of people with excess seed and unless the acreage is going to... one thing we can probably know with certainly is the acreage will not be expanding to the size that the crop expanded, on account of the favourable weather, so I just... I think the business of sure, everybody is going to be as aggressive as they can be, but even in the midst of new product introductions, sheer evolution in this industry doesn't tend to occur much more than 30, 40 basis points. And, frankly, it never has.

And so just the sheer weight of the amount of seed production would take us here. We said there is... this is a conservative approach, but in view of the industry-wide impact of this I think it was the right thing to do, than to just take a lot of seed and imagine that pure determination can take care of something this big.

John, on the second part of the question?

John Ramsay

Yes. I think your two other points, Andrew, one was on the EPS clarity. Yes, you're right, the guidance that we have given is including... is after the write-off in 2013 that we've described. The reason for that... we don't put it into restructuring and impairment, it's not a restructuring and impairment charge so it won't appear in that line. It will appear in normal trading. The second question was the guidance in Latin America. I think the best way of looking at Latin America, and it does focus very much on the size of the business that is still to be done: in Fourth Quarter of 2012 in Latin America we saw something like – I think I'm right in saying for the total business – 42% of the Latin American sales in the Fourth Quarter.

To achieve this guidance and our target in our current plan is a bit above that 42%. Not much, but it is a bit above the 42%. So that gives you an order of magnitude that we need to achieve in the Fourth Quarter. It does... those figures do include an assumption that we do get this Solatenol registration, but assuming that we do then that is our target.

Andrew Benson – Citi

Thanks very much.

Operator

Your next question comes from the line of Rakesh Patel from Goldman Sachs. Please ask your question

Rakesh Patel - Goldman Sachs

Hi, there. Just a couple of questions and I suspect I'm probably asking the same question in several different ways. But when we think about next year and the exceptional things that won't repeat, I wonder if you could give us some more numbers around that, because if you have seed production costs that are exceptionally high this year, glyphosate pricing, that was also exceptionally high, these two things that shouldn't repeat, along with the write-down, I'm surprised that you're not talking about having a significant increase in profitability next year.

I was just wondering what was making you a lot more cautious there and then, secondly, in terms of the free cash flow, I was wondering if you could give us any color on that and how we should think about that, both next year and this year and how the working capital has progressed and how you're expecting that to evolve towards the end of the year. That would be great. Thanks very much.

John Ramsay

I don't think we've necessarily been overly cautious about 2014. I've just given you the components; those are quite big movements on profitability that we've described in terms of the seed costs and those will come right through to bottom-line profitability in 2014. So we're not being cautious for any particular reason; that is just explaining the components of it. They will contribute to a significant improvement in profitability next year.

Free cash flow, yes, the working capital dynamic, as you've seen, very strong growth in Latin America this year and you saw the half-year build-up in inventory in terms of the second half, of course as we... the majority of that gets sold in the fourth quarter and it's essentially sitting in receivables at the year end. So that impact is going to persist into 2014 and what we'll see in 2014, perhaps is more modest growth in working capital overall for the business. Then the working capital build will be proportionately less and we'll see a much improved free cash flow year in 2014 as that build for working capital in Latin America reverses and you get a lower level of build in consequence of ongoing growth.

Rakesh Patel - Goldman Sachs

Great; thanks very much.

Operator

Your next question comes from the line of Jeremy Redenius from Sanford Bernstein. Please ask your question.

Jeremy Redenius - Sanford Bernstein

Hi, it's Jeremy Redenius from Sanford Bernstein. Three questions. First, on the call today we've heard about several negative impacts from the US drought and the higher seed costs for corn. But I would imagine you have benefited from the higher corn price as a result of that over the past year. Could you give us any sense of the balance of positives and negatives? Have you been better off, on balance, as a result of the higher corn prices and the drought, or worse of?

And, second, on Plene you didn't mention that specifically on the call today, but could you talk about your progress there? Has it so far lowered operating costs for the farmers as you expected? Have yields using that system been as good as you would have thought? Just an update there.

And then, last, just a quick number question. On page 15 I noticed for the farmer profitability for US corn for the 2013 – 2014 season, could you give us your assumption behind the season average corn price and if not today maybe I can just follow up later. Thanks.

Mike Mack

Let me... by the way, Jeremy, I didn't get the piece of your second... the front end of your second question.

Jeremy Redenius - Sanford Bernstein

Oh, just that you hadn't mentioned Plene on the call today but I was...

Mike Mack

Plene. Sure. The short answer is I... hopefully you'll be able to join us in Brazil in December, a few long weeks from now and we're going to be taking everybody through all of the biological and agronomic and commercial dimensions of that and so hopefully that will be able to answer all of your questions. But we didn't not discuss Plene for any reason other than this was a trading update. Plene as a percentage of our sales down in Brazil is still very much in the development phase, but we're looking forward to sharing the whole Plene story with you all in just a few long weeks.

The first question that you asked is when you think about the drought are things better off or worse off, and from last year if you take a really long look back on this, weather has a way of being worse off for some people and then it creates an environment where it's better off for another. As we look at it all in the fullness of February of this year as well as again in July, it was clear that diminishing the stocks-to-use ratio in corn did give rise to a higher commodity price, some of it reflected in corn, some of it reflected in soybeans. So it's very difficult to model this beyond to say that the market that we participate in is a global market across not only the grains but of course some of these other crops, specialty crops and vegetables and fruits as well.

And that demand has remained steady and if you look at the farmer profitability, which is a piece of your third question, this relationship between the volatility of grain prices and farmer profitability certainly isn't one for one and that's why we included that in the final slide in the pack or the penultimate slide, is that we have to target necessarily how is the overall profitability for farmers at the current grain pricing and that remains robust.

And here we are at $4.60 corn, you pick your number, whatever you're working on, a spot or forward basis and compare that to $7.70 corn not all that long ago, and yet demand for our products and demand for the technology around the world continues to grow.

So I think the long-term fundamentals are in place; short-term volatility, whether it's related to weather - and weather itself gives rise to volatility in prices – is and has been a feature of the landscape, but are we better off or worse off than the drought? Some farmers are better off; thankfully the insurance scheme in the US covered those farmers very nicely and they came back and planted a really strong corn crop, as the numbers indicate right now.

Jeremy Redenius - Sanford Bernstein

I'm sorry; on that last column in the chart on page 15, are you able to give me the corn price assumption?

John Ramsay

Jeremy, if you don't mind, would you follow up later? I don't have a specific number; sorry.

Jeremy Redenius - Sanford Bernstein

Sure; no problem. Thank you.

Operator

Your next question comes from Patrick Lambert from Nomura. Please ask your question.

Patrick Lambert – Nomura

Good morning. A few questions, also, from my side. Can you, first, on Lat Am this year, comment more on your corn business there, how it has been developing in Q3 and how do you see it in Q4? I think acreage is likely to be down. Could you comment on your market share potentially in value in terms of traits there that you can capture? That's question number one.

Question number two, also, on Lat Am, sugar cane, I think last year you reported very strong growth in the crop protection side of it. Could you comment a little bit on what you see also on the crop protection side this year in Q4 and Q3 to Q4?

Third question, looking into 2014, in terms of, I think at H1 level you said you were pretty happy with the situation in the supply chain in crop protection in terms of volumes and you thought that everything would be absorbed and therefore a pretty nice situation in 2014. Is that still the case at this stage?

And, finally, again, on the write-down of corn seed. Can you comment a little bit more on the cash flow impact of this? I'm struggling; the cost that has been incurred on – I am pretty sure has not increased so we should not see too much of an impact on the cash flow situation. Thank you.

Mike Mack

John, maybe you could take the third one. I'll see if I can put the first two together. First, Patrick, on the upcoming, you know, obviously it's too early to call that, but we're certainly benefiting from the trait rollout that we have. Viptera has got great reception and that's one of the reasons why we announced this corn plant, the building-out of a major corn plant in Brazil. That all is really coming along nicely, but it's absolutely too soon to peg that, beyond to say that we have experienced some terrific growth in corn seed in Brazil and we expect that growth to continue, both on the back of market expansion as well as expansion of our market share.

The second question, you asked about supply chain and crop protection. I guess it relates a little bit to the growth in inventory that we had at the first half, relative to the prior period and this was a bit related to the question that Andrew Benson had around seeds inventory. And unlike seeds inventory, where the constant renewal of new hybrids coming through the system really does limit your ability to... the shelf life, if you will, not only biologically but commercially, in terms of the flow through of these hybrids are ones that limit your ability to redirect inventory into other places. Crop protection is an altogether different kettle of fish. Here we've got, if a given crop market doesn't materialise on account of the weather or on account of pest pressure in a certain way then we can take that inventory and move it into other markets. So, moreover, it has very long shelf life so our ability to manage well our crop protection inventory is absolutely within our grasp.

It's not to say that seeds inventory isn't well-grasped as well; it's just more subjected to the vagaries of weather, which we're obviously experiencing right now. But the crop protection inventory over time is going, as we said in the first half, to come down. Some of it in 2012 was an intentional build-up and right now we're just about making sure that that's leaned out to where it needs to be. John, the third question?

John Ramsay

I think just the... also the point I think you're making on there was the question around the inventory perhaps in the channel, in terms of the levels there. This normally refers to North America, this question, I think.

Patrick Lambert – Nomura

Yes.

John Ramsay

We won't really know the inventory until November, but all of the soundings from the distribution is that the distribution is quite comfortable with the level of inventory, so I don't think there's anything to worry about there, at all. The question of the cash flow impact; I think this was a question about a cash flow impact on the seeds write-down; if I'm right, that will be negative cash flow, because essentially it's money we've paid out this year, either to growers or for the winter production that we've already had. But essentially it is a grower cost that we paid to growers who have grown the production seed for us. So it will be a negative cash outflow of the same order of magnitude.

Mike Mack

Thanks, Patrick. Operator?

Operator

The next question comes from Laurence Alexander from Jefferies. Please ask your question.

Laurence Alexander – Jefferies

Two quick ones. First, as you look out over the next couple of years, do you think, aggregate, the world crop acreage will be flat or decline? And, secondly, on Enogen, how many mills are you currently at and are any of them indicating that they would move to 100% use of Enogen within the next two or three years?

Mike Mack

The first question, Laurence, it's interesting, on a global basis, of course, new crop land comes into the picture each and every year, but if you followed perhaps some of the discussion that we had just a few long weeks ago, when Syngenta announced what we call our Good Growth Plan, equally, millions of hectares of land come out of production every year because of its being degraded and that's a serious problem. So I think one of the questions that we have in front of us, the opportunity is, what can Syngenta do to make the worth of the farmland that we have higher?

And there are all sorts of things we can do in that respect. Stewardship, making sure that we respect the sustainability of agriculture, so one of the markers we set down for ourselves is over the coming decade to see if we can't find a way to make the farmland that we have in production right now ever more bountiful on the existing acres. And so if you ask me what would ideal look like, ideal looks like the world can fix and, even long-term, shrink the amount of land that is used for agriculture and have the production on that land be of higher quality and that would drive farm profitability and prosperity in rural communities. So from a macro-economic context, that is what we're trying to do. If you ask me the near-term question, is more farmland going to come in next year, the answer is absolutely and it has for quite some time.

Enogen, the short answer is it's 100%. Once you go to an Enogen plant, once an ethanol plant incorporates Enogen in its system, this is a 24/7 operation and they convert in their entirety. So what we're doing is we're ramping up the number of plants that have Enogen as its means of breaking down the corn into fuel.

Laurence Alexander – Jefferies

And how many plants are you at currently?

Mike Mack

We’ve got trials on a number of them, but we’re full-out now on four.

Laurence Alexander – Jefferies

Thank you.

Operator

The next question comes from the line of Tony Jones from Redburn. Please ask your question.

Tony Jones – Redburn

Sorry; I had a couple of follow-ups, actually. First, on pricing, I think it was 3% in the quarter, which is a pretty good result, but could you help us understand what was it ex-glyphosate, because it looked like glyphosate was quite so... it increased over the year. And then also going back to your comments and discussion of farm income, it certainly looks like farm income remains quite high from a historical context, but we can still get mix shifts so with crop mix, looking like we're getting more soy and less corn, that might carry on into the US season next year, but what does that mean for margin? Because my own assumptions are that that could be a small negative impact.

And, then, finally, just on seed production, you'd made investments in new seed facilities, I think in Chile. Could you remind us of what the cap ex was when it starts up and whether that will have a positive impact on margin in South America on ramp up over the next year or so? Thank you.

Mike Mack

Tony, I'm not sure I understood your precise question about farmer profitability. The farmer profitability that we mentioned on slide 15 had to do with US farmer profitability for corn, mapped against the crop price, the commodity price basket for crops. We only did that to demonstrate that there is not a one to one correlation between profitability and grain prices. But this segment of population, US corn farmers, represents merely a segment around the world. And, as you know full well, the profitability of a Brazilian soybean farmer is going to necessarily be different than a Colombian coffee producer and each of them has their own set of economics and those economics really determine whether and how they are able to invest in technology. What are we able to say broadly on a global basis is one thing and the corn is another. Were you asking a corn question or a global farmer profitability question?

Tony Jones – Redburn

Well, in the past we've had small percentage changes, say, in the US, from farmers moving between a bit of corn onto soy, depending on what's most profitable. It was just to understand whether that will have any margin impact for you.

Mike Mack

I see. No, the short answer is no. I don't see farmer profitability right now driving any meaningful shifts between corn and soybean on any given year. Of course, that is driven as much as anything by the weather and the weather being, you saw this year, farmers got into their fields quite late and as the planting window diminishes they have to change some of their cropping patterns and they take a look at fertilizer prices and all of these other things. But all other things being equal, most of the farmers are inclined to plant corn if they can.

John, there was a question about the Argentinean cap ex?

John Ramsay

I think your reference to Chile... probably it was Argentina, where we did announce the $50 million cap ex for a plant there and when that plant does eventually come on-stream then it will be margin enhancing, because it's substituting for third party contracting, so that's fundamentally the business case. And also the quality; we do get much more reliable quality. I think your first question was to do with the glyphosate impact on price and yes, you're right, the pricing is up 3% and cumulative year to date for crop protection prices are up 3%. That would be 1% if you were to exclude the impact of glyphosate and glyphosate prices are up quite substantially.

Tony Jones – Redburn

Thank you very much.

Mike Mack

Thank you, Tony. Operator, we have time for a final question.

Operator

And your final question comes from the line of Andrew Stott from Bank of America Merrill Lynch. Please ask your question.

Andrew Stott - Bank of America Merrill Lynch

Yes, good morning, Mike and John. Really just coming back to, sorry, again, to the inventory write-down. We've not seen this before in Syngenta's history. I get the fact that you had an extreme shift in yields year on year, but what has changed? In your planning process, what was different to the outcome? Because I'm really struggling with the scale of the write-down. That was the first question.

And the second one was what do you do with the excess seed?

Mike Mack

You say the scale of it. We didn't... we never saw the scale, by the way, Andrew, of the prior year, either, did we? I mean, that was a one in 50 year event by everybody's standards. Some of that could be recovered with winter production but the... all I'm saying is that from as best we can tell we've got... and, by the way, we're 80% harvested on corn seed. We've got more coming out than we planned and there is really not a lot of scope to not recognise that if we're not otherwise satisfied that that is going to be reflected in sales. It's going to... that's a one for one; when you say what do you do with the seeds, some of the seed you can hold in semi-finished goods inventory and other seed you just release to the grain market. But the cost of production significantly exceeds the value of that.

John, any other colour to shed on that?

John Ramsay

In terms of the scale, Andrew, maybe I'll just try and help a little bit on that. Clearly, this is a one-off and it's a one-off in exceptional circumstances. A turnaround in the production opposite plans for us has been... 70% of production last year – 70% of plan last year and 130% this year, so this is going to be an industry issue and yes, it's unprecedented in our ... time in Syngenta and, you know, it is unprecedented events in terms of the weather impact on production. Maybe just break it down a little bit, maybe help a bit further. You've got this 130% cost component or inventory component of it. But you also have... bear in mind that we were planning to actually sell more in 2013 than we did. And consequently going into the 2014 season we are coming off a low base. So there is that component, as well. What we can be assured about is that the inventory that we are carrying forward into the 2014 season is highly relevant to these segments that we expect to perform extremely well in. And the other thing we're picking up from the market, it seems that our hybrids in these particular weather conditions have really good yields, so the growers who experienced the product this year in their own fields have had a very good experience and so we're set up, I think, as best we possibly can, for a very good season in 2014. That doesn't take anything away from yes, it's a big charge, but it is exceptional one-off circumstances.

Mike Mack

And you asked, again, about the... I think there was a question a little bit ago why not just push ahead and sell those? Part of that has to do with we are, or course, taking our portfolio to a place where we could be in a position to strike out and to strike out at any of the acres out there. We've got an exceptionally good series of offers that are being generated here, so that portfolio does need to continue to move on. And so the business of just working on the seeds that we made this year beyond what we think we can sell is something that conservatively we decided not to do.

Andrew Stott - Bank of America Merrill Lynch

And how many seasons can the seed carry over for, before it's effectively written off? Physically, if not already financially?

John Ramsay

It depends on the seed and it depends on the state of its production, as you take it forward, but you could say potentially two years, although quite a lot does have to go in the first year, but up to two years.

Andrew Stott - Bank of America Merrill Lynch

Okay; thank you.

Mike Mack

Thank you, Andrew. Ladies and gentlemen, that concludes our presentation this morning. As usual, if you have any additional questions, please feel free to call Jennifer Gough or Lars Oestergaard in Investor Relations. I hope to see a number of you at our investor event in December and, with that, have a pleasant day. Thank you.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may disconnect.

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