Full Year 2012 Results TRANSCRIPT

Contents

Corporate participants

Jennifer Gough

Syngenta - Investor Relations

Mike Mack

Syngenta – Chief Executive Officer

John Ramsay

Syngenta – Chief Financial Officer

Presentation

Operator

Thank you for standing by and welcome to the Syngenta full-year 2012 results call. (Operator Instructions). I must advise you that the conference is being recorded today, Wednesday, February 6, 2013. And I would now like to hand the conference over to your speaker today, Jennifer Gough. Please go ahead.

Jennifer Gough

Yes, good morning and welcome to the call. Today's presentation is being hosted by Mike Mack, CEO, and John Ramsay, CFO, and the slides to accompany the presentation are available on our website, Syngenta.com.

Let me first draw your attention to the forward-looking statement for Safe Harbor on slide number two. This presentation contains statements that may be subject to risks and uncertainties. We refer you to the SEC filings for further information. And with that I'm going to hand over to Mike who will begin the presentation, starting on slide number three.

Mike Mack

Thank you Jennifer. Good morning ladies and gentlemen and welcome to the call. The results announced this morning demonstrate a continuation of the sales momentum which we've seen since the launch of our integrated strategy two years ago now. Sales at a constant exchange rates were up 10% in 2012 and I'm very pleased to report that both developed and emerging markets performed strongly. As of mid-year commercial integration was complete in all 19 territories. In this presentation we shall be talking about some of the early proof points underpinning our confidence that our strategy is really resonating with customers and will drive future growth.

The development of our seeds technology over the past five years was one of the prerequisites for embarking on our strategy. This technology is continuing to prove itself in the field with double-digit growth in all regions. It's a key enabler of our integrated offers and we're now undertaking a series of investments in new capacity, the latest of which announced this morning is a significant expansion at our Formosa plant in Brazil.

Last year many of you will have participated in updates on four of our key crops -- cereals, corn, rice and vegetables. Advances in these businesses have enabled us to raise our sales targets for the eight key crops combined to $25b in 2020. This implies a compound average growth rate of 8%, illustrating our confidence in our ability to outperform a growing market.

2012 also saw us make a number of acquisitions to expand the breadth of our technology. These acquisitions, which I'll come back to a little bit later, enable us to leverage our investment in R&D and to get new solutions to growers more quickly.

Let me turn now to our performance in each of the major regions in slide four. Integrated sales excluding Lawn and Garden rose by 11%. The strongest performance came from North America where record corn acreage and high commodity prices stimulated investment in the first half of the year. Although a drought in the summer caused a drop in yield, grower incomes were protected by crop insurance. The dry conditions were a stark reminder of the need to optimize water use, but we were able to demonstrate in the field the value of our trait technology and of our integrated offers. At the same time the growing challenge of weed and insect resistance further underlined the benefits of our integrated solutions.

In Europe cold weather in the early part of the year obliged many growers to switch to spring crops, favoring our leading sunflower and corn seeds businesses. This was particularly the case in the CIS and Southeast Europe where we also saw a strong growth in Crop Protection with the ongoing modernization of agriculture. In Northern Europe sales were robust, notably in France where our fungicides portfolio made significant gains.

In Asia Pacific sales excluding the impact of range rationalization were up 5%, with strong growth in China and Southeast Asia. Sales in Australia were lower due to extreme weather conditions there.

Finally, Latin America, where high soybean prices have resulted in increased acreage and investment in what is already a highly-productive sector. Conversely, sugarcane growers are only now beginning to realize the benefits technology brings in terms of increased output, efficiency and quality. Overall the highest growth rate came from Seeds. I shall be coming back to that later in the presentation. But before handing you over to John Ramsay, I'd like to cover the recent performance and outlook in Latin America in just a bit more detail. Slide five.

If you look at the chart at the top of the slide, you can see how the business staged a strong recovery from the effects of drought early in the year, with sales down 3% in the first quarter. Sales in the fourth quarter alone were $1.6b and represented 42% of the annual total. It's important to be aware though that in Crop Protection a lot of those Q4 sales were herbicides applied early in the season. Because we recognize sales on consumption in this market, a large portion of our fungicide sales will be recognized in the first quarter of this year.

We remain very confident on the longer-term outlook for Latin America. We just launched our new fungicide Solatenol in Paraguay and are awaiting registration now in the largest market, Brazil. We expect continued strong growth in Seeds as evidenced by last year's announcement of new core capacity in Argentina and today's announcement on Brazil.

Let me now hand you over to John for a detailed review of the financials. John?

John Ramsay

Well, thank you, Mike, and good morning. And please turn now to the financial highlights on slide seven.

Following a record-year financial performance in 2011, I'm pleased to report on another year of strong performance in 2012, another record. Reported sales were up 7% at $14.2b. The 10% increase at constant exchange rates comprised 7% volume and 3% price. Targeted price increases in Crop Protection were achieved as planned. EBITDA at constant exchange rates was up 17% at $3.2b. At constant exchange rates the margin reached 23.2% compared with 21.9% in 2011. And the reported EBITDA margin was 22.2% and this included a headwind in line with previous estimates of $325m for currency and raw materials combined.

Net income including restructuring and impairment was up 17% at $1.9b and earnings per share excluding restructuring and impairment were 15% higher at $22.30. Underlying free cash flow was strong at $0.9b and allows us to finance a number of strategic acquisitions. This strong performance and business outlook has enabled us to propose a dividend increase of 19% to CHF9.50 per share. In US dollars the increase will be around 21% at current exchange rates. And finally, cash flow return on investment was 15% and once again above our target of 12%.

Slide eight shows you the detail of the sales growth. I'm pleased to report that volume growth increased sales by $880m, as you can see in the light-green shaded area. And this reflects strong performances in all regions except Asia Pacific, which I will come back to later. The volume growth was coupled with the achievement of targeted price increases, with a total global contribution of $425m. In Lawn and Garden sales were lower due to strategic divestments which had a positive impact on profitability, as I shall highlight in a moment. Currency had a negative impact on the top line of $371m due to the appreciation of the dollar against most currencies.

Slide nine gives the progression of operating income and in the interest of transparency I've broken this down in some detail to take you through the different components. Volume, which includes royalty income and mix, together with price, made substantial contributions to increase the operating income. Cost savings amounted to $198m, arising mainly from our commercial integration, but also some further savings from integration of our global services organization which has been underway for a few years.

Increases in cost of goods sold include higher raw material costs due to the oil price and higher cost of seed production, particularly in North America. The $150m of cost inflation arising mainly from emerging markets represent an increase of around 3% on the total cost base, including fixed production costs. Total cost increases were more than offset by higher prices. Investments in growing the business totaled $170m. And currency had a significant impact on operating income, accounting for around $220m of the $238m. And within other, we also had an $80m charge for a settlement of the Atrazine court case as well as some sundry gains.

Taken together, the operating margin increased both in constant exchange rates and at reported exchange. Looking ahead to 2013 and given the current market conditions, I would expect the combined impact of currency and raw materials to be broadly neutral. We will additionally seek further price increases, though I would anticipate those to be more moderate than in 2012.

Turning now to performance by region on slide 10, and starting with the northern hemisphere. The margins on these charts are at reported exchange rates. They therefore include the negative currency impact just mentioned, and this was particularly significant in Europe markets and the Middle East, as well as in Asia Pacific.

In Europe solid volume and price increases across most of the portfolio largely offset the adverse currency impact. The quality of the business in Europe reflects the sophistication of Western European markets and the relatively large proportion of our portfolio in higher-margin product lines, notably fungicides. The numbers show that our expansion in the CIS and southeast Europe territories over recent years has been at an attractive level of profitability.

In North America sales growth was driven by the breadth of our offer and in particular by our leading Crop Protection portfolio. Our integrated weed and insect resistance management offers are gaining momentum as growers increasingly appreciate their volume. The expansion of our corn technology resulted in good underlying Seeds growth, augmented by corn trait royalty income.

The regional performance in Latin America and Asia Pacific is shown on slide 11. Sales performance in Latin America has been strong. Commercial integration in Latin America, and particularly the early integration in Brazil, now at the end of its third year, has enabled us to drive growth of our Seeds portfolio. Seed care expanded rapidly in the region, primarily Cruiser and Avicta, and this helped offset the impact of first quarter drought, which led to only modest growth in high-margin fungicides. Latin America continues to see a relatively high level of growth investments, for example, in sugarcane.

In Asia Pacific, you already heard Mike mention that underlying growth adjusted for currency and range rationalization was 5% higher compared to prior year. And this growth was driven by the emerging markets of Southeast Asia and China, partly offset by a decline in Australia caused by adverse weather. Seed care expanded strongly, with notable performances again by Cruiser, but also by Celest.

Please turn to slide 12 for a look at our Lawn and Garden business. The chart shows the 2012 reported margin and sales evolution compared with 2011. And for clarity I've also provided a pro forma 2012 sales and margin calculation showing the annualized contribution as a result of our actions over the last year.

Our strategic focus on high-value chemistry and genetics led to the divestments of the Fafard growing media business and the SHS distribution and brokerage business, both of which were lower-margin business units. On the other hand we acquired DuPont's professional products insecticide business which complements our existing turf and landscape portfolio. And these actions together amounted to around 4 percentage points improvement in annual EBITDA margin and represents a significant progress towards achieving our margin target of 20% by 2015. And I believe that the Lawn and Garden business now has a solid foundation on which to base future growth.

Please turn to slide 13. We continue to report sales by product line for both Crop Protection and Seeds. Note that the size of the bars is affected by currency in the year while the percentage change is at constant currency.

And Crop Protection sales were driven in particular by selective herbicides growth across the Americas. Demand was high for Callisto in weed resistance management programs on corn and soybeans in the US and increasingly in integrated agronomic protocols for sugarcane in Brazil. Non-selective herbicide sales also increased, primarily reflecting strong volume and price increases in the Americas for our glyphosate product Touchdown as a result of high demand on corn and soybeans as well as the shortage of generic supply. Strong quarter four fungicide growth in Latin America offset the earlier impacts of drought.

Insecticide sales were up 6%, and excluding the impact of range rationalization, sales were up 10%. A mild winter in the US created heavy early insect pressure and in addition North American sales of Force more than doubled as grower awareness of corn rootworm resistance increased. Rapid technology adoption in Brazil further underpinned growth with strong contributions from Actara and Durivo. Seed care sales were up 12% led by Cruiser and Celest/Maxim. Further advance was made in emerging markets where growth exceeded 20%.

Slide 14, let me take this opportunity to focus on the current debate in Europe around the neonics class of chemistry and its alleged impact on bees. The chart is a breakdown of our worldwide thiamethoxam sales, totaling in 2012 $1.1b. Now just over half the sales relate to the soil and foliar spray insecticide Actara. Cruiser, the seed treatment form of thiamethoxam, is a proven and highly-effective technology sold and safely used in more than 80 countries and on over 20 crops, and it remains better than any alternative technologies available today.

Our EU sales on corn, oilseed rape and sunflower, the crops currently under discussion, are highlighted in brown on the chart. And you can see that this is a relatively small proportion of our thiamethoxam business. For European farmers, however, the withdrawal of neonics would mean yield reductions of up to 40% and the total annual economic loss within the EU was estimated at EUR5b. Now clear evidence from years of monitoring in the field proves that neonics pose no risk to honeybees. Armed with this evidence we will vigorously defend our product on the grounds of sound science and sustainability as well as economic benefits.

So moving on to slide 15, the progression of our new products is one illustration of how we are able to sustain leadership in Crop Protection. Sales of these products were up by 36%

for the full year and a compound annual growth rate of 44%. And let me give you just a few of the highlights.

Sales of the herbicide Axial registered double-digit growth in all regions, with the largest contribution coming from the key Canadian cereals market. The nematicide seed treatment Avicta saw a strong sales growth on cotton and soybean in Brazil, partly offset by lower sales in the US due to the summer drought. The Durivo family of insecticides was rolled out on rice and vegetables in Asia Pacific while sales in Brazil increased 80%.

The most recent launches, the fungicide Seguris and the seed treatment Vibrance, both have significant potential. And sales of Seguris doubled in 2012 and we secured EU registration for this next-generation fungicide back in November. Vibrance, which is one of the industry's first molecules specifically developed to be used as a seed treatment generated first sales in North America with a successful launch on cereals, soybean and canola.

We are equally pleased with the growth we're achieving from our Seeds portfolio, shown on slide 16, and let me start with corn. Underlying corn seed sales were up strongly in all regions, demonstrating the success of our corn technology investments in generating growth. As I mentioned at the first half, corn sales were augmented by a recognition of trait royalty income of around $200m under our licensing agreement with DuPont Pioneer. In soybean ongoing conversion of our portfolio to round up ready food technology in the US is progressing well while in Brazil increases in soybean acreage generated strong sales growth.

In diverse field crops sales of sunflower continued their growth, notably in the CIS and Southeast Europe where we are capturing value from the expansion of our leading conventional and high oleic hybrids. In Northern Europe hybrid barley, now on more than 300,000 hectares, is starting to make a significant contribution alongside growth in the existing wheat business. And vegetables generated strong growth in the fourth quarter in all regions and this more than offset the weakness in the first nine months.

Turning to slide 17, we remain on track to deliver cumulative cost savings of $650m in 2015. In 2012 we met the full-year cumulative target of $300m, with more than half coming from SG&A, in particular commercial integration. In coming years, the emphasis will be increasingly on the supply chain and global procurement efficiencies. The total cash cost of the program is unchanged at an estimated $400m and you can see on the slide the income statement charge and cash flow impact for 2012 as well as an outlook for 2013.

Please turn to slide 18. Operating income of $2.6b before restructuring and impairment rose by 11% and 21% at constant exchange rates. Net financial expense was a little lower at $147m reflecting some one-off gains on interest swaps. The tax rate for the year was 15% excluding restructuring and impairment and on a forward-looking basis I'd expect this to be closer to 20%. After a net restructuring charge of $182m, net income reached $1.9b, an increase of 17%. Earnings per share increased by 15% to $22.30.

And turning now to cash flow on slide 19, you can see in green the pre-acquisition cash flow was strong at more than $900m. The level of working capital increased in absolute terms during the year from an unusually low level at the end of 2011. And this increase primarily relates to higher receivables in Latin America as our business grows and from our inventory build for the northern hemisphere. Average working capital as a percentage of sales was lower in 2012 than 2011, and this demonstrates our continuing tight control.

Capital expenditure of $679m was in line with our guidance and reflects increased investment to meet growing demand, especially in American markets, and I'll talk more about this in a moment. After financing and tax expenses of $481m, pre-acquisition cash flow reached $924m. This was a higher-than-normal year for acquisitions with total expenditure amounting to $654m, leaving a reported free cash flow of $270m.

Slide 20 shows our investment profile over the last five years. The peak capital expenditure in 2009 coincided with our capacity expansion program which has enabled the growth in some of our leading chemistries we are seeing today. The future growth potential of our business is already evident in our sales progression and we are now in the phase of investing in order to enable future growth, especially in the case of emerging markets.

As we move towards our $25b sales target, I would expect a step-up in investment in tangible fixed assets which we will manage to 5% of sales. The other component in the chart is acquisition expenditure. We continue to be on the lookout for opportunities, particularly those focused on enhancing our Seeds portfolio and our technology capabilities. Use of cash in such activities will by their nature be variable from one year to the next. And at the bottom of the chart, you can see the net gearing, which remains at a low level following last year's acquisitions, enabling continued increase in cash return to shareholders.

Slide 21 shows earnings per share in the bars with the axis on the left while the line represents dividends declared against the right axis. Over the last five years we have generated double-digit annual earnings per share growth and over the same period dividend growth was faster as we placed greater importance on this component of cash returned to shareholders. And for 2012 our proposed dividend is CHF9.50. This represents an increase in US dollars at current exchange rates of 21% over prior year and is again above our earnings per share growth of 16%.

So let me take this opportunity to confirm our commitment to delivering sustainable dividend increases as our preferred method of cash returned to shareholders. We do, however, retain the flexibility to undertake tactical share buybacks when appropriate.

And to conclude, I'll remind you of our financial framework, and you can see this summarized on slide 22. Our ambition is to outperform the market and I'm pleased to report that in 2012, whilst figures are provisional, we believe that we have gained further market share. We have committed to delivering profitable growth and our EBITDA target range is 22% to 24% by 2015. As you have seen in 2012, we are now within this range.

Looking ahead we expect R&D to fall within a range of 9% to 10% of sales. We target a cash flow return on invested capital in excess of 12% on an ongoing basis, and we will do this while keeping capital expenditure levels at around 5% of sales, as I just mentioned. We will continue to maintain a strong balance sheet with the flexibility to undertake future growth investments and acquisitions as and when they materialize. And our final objective is to continue to return significant cash to our shareholders, and in this regard, as I've already mentioned, we have committed to a progressive dividend policy.

And with that, let me hand you back to Mike.

Mike Mack

Thank you John. Please turn now to slide 24 which shows the breakdown of our sales by crop and the growth rates we achieved in 2012.

The highlights include corn where growth was driven by trait revenue, the success of our weed and insect resistance offering in North America and by strong growth in Latin America, Asia and Eastern Europe. Our herbicide programs also contributed to growth in soybean as did fungicide growth in Seeds in Latin America. In cereals the acceleration of hybrid barley is contributing to growth alongside Crop Protection products such as Axial. And you can see that the two crops, which are currently the smallest, sugarcane and rice, are growing rapidly. Specialty crop sales were lower in 2012 owing to a decline in cotton acreage.

Slide 25 shows how all eight crops are expected to contribute to our target of $25b in sales in 2020. You can also see the upgrades that we made recently based on a better understanding of the portfolio potential. For corn we expect additional sales to come from water optimization, resistance management and further emerging market expansion. For cereals a key driver is our integrated hybrid barley offer, with estimated peak sales of over $500m. In rice our GroMore protocols are surpassing expectations and we're now expanding the scope of this hybrid program.

Please turn now to slide 26, which we've included in order to help you model our sales progress by region. In line with recent experience, the fastest growth is expected to come from the emerging markets, with Latin America, Asia Pacific, Eastern Europe and Africa all achieving a compound annual growth rate of just over 10%. However, we also expect sustained solid growth in the developed regions over this period with a growth rate of around 5%.

The main drivers by region are shown on the slide, but they're just examples of the multiple-growth opportunities we see. We believe that our ability to leverage technology across regions will continue to be an important differentiator. Overall this represents a significantly higher long-term growth rate than we could have expected to achieve with our former strategy. And it demonstrates the added value we can realize through integrating our portfolio and the way near-term success is leading to broader growth opportunity. And slide 27 explains that now in more detail.

This side sets out the three-level target approach to integration and shows you how different offers fit into that approach. Near-term success is currently coming from leveraging our combined field force. All of the early examples shown on the left contributed to our 2012 performance, corn and soybean sales in Latin America and above-average growth in Southeast Europe and the CIS.

As our experience in thinking across portfolio has deepened we're able to develop integrated offers for yields, quality and convenience that build on our existing assets. Our GroMore protocols in rice, for example, are based on a number of existing crop protection products which when used in an integrated and grower-focused way can bring yield increases of up to 30%. Breakthrough innovation is the final step and that means bringing to market entirely new offers that from their inception draw upon multiple technologies. A hybrid barley program branded Hyvido was born from the interaction between distinctive genetics and chemistry.

The following slides go into a little more detail now on examples from each level, starting with Latin America Seeds on slide 28.

Brazil was one of the pilot territories for our strategy and 2012 was therefore its first year of integration. We have for some years been the crop protection leader in Brazil and we're now able to deploy the full strength of our sales force behind our Seeds portfolio. And this has resulted in an acceleration of growth over the last five years and an average annual market share gain of 1% in corn and soybean. Of course we needed to have competitive technology in order to achieve this and this has been evidenced in the quality of our germplasm and in new trait combinations, including Viptera. In order to satisfy the growing demand we're seeing we will have new capacity onstream in both Argentina and Brazil around the middle of the decade.

The next two slides move on to the middle level of integrated offers with an example of sugarcane starting on slide 29. The launch of our Plene program in Brazil has catalyzed increased awareness among sugarcane growers of the need to improve productivity through investment. Our portfolio can meet this at every stage of the growing cycle and by following our integrated protocols, growers can achieve a 10% to 20% increase in yield. As a consequence, we're already seeing dramatic growth in Brazilian Crop Protection sales for sugarcane, up 37% last year.

Turning now to slide 30 and an update on Plene, our system for the production of sugarcane sets the mechanical planting. We're currently adapting and rescaling our manufacturing there in order to be able to meet strong demand. And we're increasing the capacity of our bio factory. We're also stepping up production of our own seedlings grown in the field. Looking further in the future, we're ahead of plan in trialing herbicide and insect traits and are aiming to introduce agronomic traits within 10 years.

Please turn now to slide 31 for a look at the results achieved by our irrigation platform operated in partnership with Lindsay in the US. This offers growers an automated irrigation program combined with genetics, crop protection and crop enhancement. The brown bars on the chart show the results achieved by a standard program using maximum irrigation or a 75% reduced rate. The green bars show results from the Syngenta program with the same amounts of water.

In both cases, the yield is superior. And at 202 bushels per acre, a grower achieves more using 75% water than he does using 100% with the standard program. This represents an average return on investment of $95 per acre. We plan to reach 250,000 acres with this offer by 2015, and the potential market longer term will be the 9m or so irrigated acres in the United States.

Slide 32 shows you how we're directing R&D spend to maximize the three-level approach to integration. The starting point is the establishment of global platforms to underpin a cost-efficient approach that leverages investment globally. We're also stepping up investment in biological assessment in order to expand the scope of our second-level integrated offers. This means combined testing of chemistry and genetics across our broad network of local development sites.

Chemicals are the foundation of value-adding protocols and we will continue to make substantial investments in new crop protection products. At the same time we can leverage our existing portfolio by building it into new solutions. We will also maintain our track record of lifecycle management by funding new formulations and label extensions. And finally, we will exploit cross-crop opportunities in research in RNAi and genetics.

Please turn now to slide 33. Our acquisition strategy is to seek out opportunities that complement our existing portfolio and R&D projects and fit well within our crop strategies. deVGen and PASTEURIA, both completed last year, are excellent examples of this. deVGen will further accelerate our growth in rice by adding best-in-class rice hybrids to our strong Crop Protection offer. The development of the RNAi technology will expand the scope of insect, weed and resistance control within both chemicals and seeds.

PASTUERIA brings us a biological platform for nematode control which will expand the franchise we already have with Avicta. The lower chart shows its success in trials versus a leading competitor. The production process for the Pasteuria soil bacteria is already fully scaled up and we expect to launch the first product for the control of soybean cyst nematode later this year.

And turning now to outlook on slide 34, the strength of our business in the Americas in the fourth quarter is indicative of strong demand going into the start of 2013. We expect the business to be further supported from the benefit of our first full year of commercial integration. We expect to generate significant free cash flow this coming year while at the same time making continued investments in R&D, marketing, particularly in developed countries, and finally in new capacity. We will maintain the flexibility to grasp further strategic acquisition opportunities as they arrive and to enter into new value-adding partnerships. All this puts us on track to achieve our long-term objective of outperforming an expanding market, building on the share gains we've already achieved.

Before concluding, I would like to inform you now about the crop updates we scheduled for this year, shown on slide 35. In July we showcase diverse field crops in one of the key markets, Russia, where you'll also be able to learn about the business model there in this high-growth environment. Then in December we're inviting you to join us in Brazil where we will cover the remaining three strategic crops -- soybean, specialty and sugar cane. You'll soon be receiving registration details from Jennifer and I look forward hopefully to seeing you at these events.

And with that let me now open up the calls for questions. Operator?

Questions and Answers

Operator

Thank you. We will now begin the question and answer session. (Operator Instructions). Your first question comes from Andrew Stott from Bank of America. Please go ahead.

Andrew Stott - Bank of America

Good morning. Mike, you mentioned earlier, I think I read your comments as a delayed benefit in LatAm from the growth of Seed, as in a mix issue. I'm just wondering why do you not see that every year? So is there an exceptional basis to the product mix in this particular LatAm season? That's my first question.

I then had a question for John. Thinking of gross margin this year, obviously last year up a small amount on a reported basis, about 20 basis points, partly obviously linked to currencies and raw mat. I'm just wondering if you had any thoughts on gross margin year on year in 2013. Thanks.

Mike Mack

John, I guess they are really both phasing questions.

John Ramsay

Yes, I think first of all, Andrew, in respect of Latin America, the point Mike was making is that there was a little bit of a mix impact in the fourth quarter, which wasn't fully anticipated, but it's nothing to worry. Basically what happened -- you probably remember we invoice on a consumption basis there. We've got something like $600m going out in December. The ability to actually get this forecast accurate is becoming more and more difficult as we build a Latin American business.

But basically as we got to the end of December, the guys were basically shipping more herbicides in place of fungicides - because of the dry conditions the market was more receptive to herbicides. And you can see in our results that overall non-selective herbicides were up 42% in the quarter and I think selective herbicides up somewhere around 30%. And basically that substituted for fungicides in Latin America. Those fungicides have been shipped and invoiced in January so it's really just a timing issue. But it did deteriorate from the mix on the margin in the second half.

Mike Mack

And the corn?

John Ramsay

And the corn, the question was going gross margin, wasn't it, the second question?

Mike Mack

Andrew?

Andrew Stott - Bank of America

Yes, gross margin, any thoughts this year

John Ramsay

Yes, gross margin, we suffered in 2012 from the raw materials impact significantly as well as higher seed production costs. And I expect there will be a bit more cost pressure in 2013, but we'll cover it by price. It will be certainly less than we have suffered in 2012, which is now behind us. We will get a bit more cost pressure but that would be covered by price. So I'd expect us to be able to move the margin up a bit in 2013 given our outlook at this point in time.

Andrew Stott - Bank of America

Okay. And sorry, can we just come back again on LatAm? I'm not quite clear whether you are saying Q1 will be abnormally good because of the delay or whether it's just a normal situation and you've had a bad Q4 mix, and that's it and we move on. I'm not quite clear on the message there. Thank you.

John Ramsay

Basically those fungicides, I said, that didn't get shipped in quarter four will be shipped and invoiced in quarter one and so we'd expect that to benefit quarter one, yes.

Andrew Stott - Bank of America

Okay. Thank you very much.

Mike Mack

Thank you Andrew.

Operator

Thank you. Your next question comes from Sophie Jourdier from Liberum Capital. Please go ahead.

Sophie Jourdier - Liberum Capital

Yes, morning. Couple of questions as well please. First of all also on Latin America, I just wondered whether you could give us a bit more detail on the corn seed business in particular in Latin America. You're talking about market share gains generally. I just wondered whether you could remind us where you are now in Brazil and Argentina and, with these capacity increases that you've announced, where you hope to get to on that.

And perhaps where Viptera lies within that portfolio in Latin America as well. So that's the first question.

The second question actually related to Andrew's on margins. The $170m growth investments last year you saw, you are talking about a number of growth investments as well into this year. I just wondered, is that the same sort of magnitude that we should expect into 2013 or will it go up or down? Thanks, the second one.

Mike Mack

Good morning Sophie. First on corn seed in Latin America, it continues to grow really nicely. We've got, as I mentioned, this is the fourth main season where we've had an integrated offer to the channel. But if you look at corn specifically, the corn areas that are growing in Brazil, and part of that expansion in corn area is driven by being able to control insects better for the first time. And Viptera really is a game-changer in that respect with its control of the above-ground insects. So that's part of it of course. The investments we've made in germplasm are part of that as well.

Our growth in corn seed in Brazil is more than 30% year on year and, as near as I can tell, that tops virtually everybody there. We believe that we gained yet another full market share point, so 100 basis points, in a game that continues to be dominated by some of the big players, is very encouraging. 13% in Brazil we reckon we have now and 16% in Argentina and so that is coming along really nicely. But the corn seed market in Brazil is poised for some significant growth over the coming years and that underpinned the investment that we announced this morning, the $74m corn seed plan.

John, the growth investments broadly?

John Ramsay

Maybe if I could, Sophie, in respect of this and given Andrew's question previously, just make a general point about margins so that everybody's clear. We are pleased with the margin progress in 2012 insofar as the investments we've made in growth, as you have said, but carrying this against this headwind of the raw materials and the currency. And particularly to get headline growth in the EBITDA margin, although it's on a few basis points, it's up 130 basis points excluding currency. And given the amounts that we've invested in the business and those headwinds, we're pleased with that.

Looking forward we do anticipate that the level of growth investments in 2013 will continue at a similar pace as we had in 2012. But when we stand and look at the gross margin we'd expect some advance because we don't have the impact of the raw materials and we do expect some further price increases. And we do expect to get some further operational leverage, but we will be investing more in R&D which will be a big part of those growth investments. Overall we have to bear in mind that in 2013 we won't have a repeat of the one-off royalty. So we will be making underlying margin advances, but we won't -- we will have the royalty effect coming out because of the comparison with 2012.

Sophie Jourdier - Liberum Capital

Okay. Thank you. That is really helpful.

Operator

Thank you. Your next question comes from 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. First, just reading your outlook statements I noticed there's no mention of earnings growth in 2013, contrasting to the statement in 2012, and I was just wondering if you could talk about that.

And then second, could you give us some guidance for your expectations for Seeds royalties in 2013 and 2014? Are you expecting any type of step up there from Viptera or Duracade, for example?

And then lastly, could you break out Crop Protection chemicals pricing this year? And if glyphosate was a material part of that, if you could break that out please. Thanks.

John Ramsay

Where shall I start? Shall I start with the Seeds, the royalties? Royalties, we had the recognition of the large gain in 2012 which in itself won't repeat in 2013, but we will see continued underlying growth in royalties associated with volume in relation to the royalty license agreements we've already struck. And there will be opportunity for further one-off type of agreements, but it's difficult to say or give a prediction about that because they're very much dependent on various negotiations. So I wouldn't like to be able to predict exactly how they would come out.

So far as pricing is concerned, CP pricing, I think I'm right in saying that glyphosate pricing was marginal. Glyphosate pricing has gone up, but it's marginal in terms of the total and I think it's somewhere around 20 basis points contribution to the total 3% price increase that we recorded.

I'm not sure where we go on the outlook statement, Jeremy. I can see where you're going. We do -- I think what we can say at this stage of the year that the momentum of the business is continuing very clearly into 2013 given that we're only just over four or five weeks into the season. But at this stage we are seeing continuing strong momentum. ForEx should be less of a headwind than we said previously and we expect to continue to generate strong cash flow. There won't be the same level of working capital build as 2012. So I think overall we're looking at quite a favorable outlook for the year as a whole given what we can see today.

Jeremy Redenius - Sanford Bernstein

And sorry, just to clarify on the pricing, could you split then the chemical versus the Seeds pricing since glyphosate wasn't a very big impact?

John Ramsay

The Seeds pricing I think was up 5%. Crop Protection's up 3%. And because of the mix of the business, we're significantly bigger in Crop protection, the overall for the Group is 3%. And what I'm saying, of that 3% contribution from Crop Protection, about 20 basis points was contributed by glyphosate.

Jeremy Redenius - Sanford Bernstein

Okay. Great. Thank you very much.

Operator

Thank you. Your next question comes from Bettina Edmondston from Kepler. Please go ahead.

Bettina Edmondston - Kepler

Good morning gentlemen. Just on North America and the inventory channels and you already talked about solid demand there. Can you maybe clarify a little bit if this is just a shift in timing moving forwards or do you expect again, after a very strong start to the season last year, increase again in North America in the Seed season?

And also if the inventory channels are quite low, what is your outlook for North American pricing?

John Ramsay

Okay, Bettina. Yes, just so far as the North American inventories are concerned, I think your question, so everybody understands, relates back primarily to the fungicides which were affected by the severe drought conditions in the autumn.

And fair to say we do have, or the industry has higher level of fungicide inventories than normal, but frankly nobody seems at all concerned about that. We've managed to get price increases on those inventories and indeed we shipped some further fungicides in quarter four. So I think it's fair to say, given that this is a growing, very strong growing segment of the market that you know, the outlook -- and I think this is reflected across our competitors and the industry generally -- is that the market will grow and this opening stock position is not really of any significance.

Generally speaking in North America people are looking at a strong year. The signs are very encouraging. There is the prospect given the weather -- and, as you know, at this time of year a lot of speculation; we're still some weeks before anything really happens -- is that people are anticipating an early season. But we just have to watch and wait. At the moment we can say that things are looking quite positive.

Bettina Edmondston - Kepler

Right.

John Ramsay

So far as there was a need for pricing, we've managed to get the price increases that we set out to achieve in 2012. I think our level of question mark or anxiety, if you might say, as to whether those would hold has diminished at this stage. And given those, the market sentiment that I've just described, we'd be hopeful of maintaining those price increases that we've already made and that are sitting in inventory and hopefully pushing for price increases wherever we can.

Bettina Edmondston - Kepler

And just on market share gains, you talked about a percentage point in Latin America or in Brazil. Can you talk a little bit about the other regions? Did they actually gain market share or is it really just in Brazil on the back of the integrated strategy and other areas are to come in future years?

Mike Mack

A couple of years ago, Bettina, now in 2011 we set out a 50-basis point a year target of market share gains and we're broadly on track for that and certainly continue to remain committed to it. Too early to say about the Northern Hemisphere, which is going to get underway in just a couple of long weeks. I wouldn't venture a guess at this point in time, but everything remains on track. The markets that we set out in these strategic -- I think the reason for highlighting Brazil and Argentina is just what happens particularly in Brazil where we have a couple of years now behind us on the (technical difficulty).

Bettina Edmondston - Kepler

Thank you.

Operator

Thank you. Your next question comes from Neil Tyler from JP Morgan. Please go ahead.

Neil Tyler - JP Morgan

Morning. A couple of questions please. Firstly, I wonder if you could talk a little bit about the financial impact in the 2012 year of the acquisitions you made, whether or not you were consolidating more cost in the latter part of the year with revenues to be consolidated more evenly in 2013. If you could just talk a little bit about around deVGen and PASTEURIA particularly.

And then secondly, the CFROI target, you're substantially above that now, but the implication I get, rightly or wrongly, is that there may at least be a dip in that measure as investments go up and margins don't necessarily over the next year or two before growth accelerates. Is that the right implication? Thank you.

John Ramsay

I don't have the number for the financial impact of acquisitions because they largely took place towards the end of the year. But, yes, there would be some costs coming in, in the last year, but it's not too material to have impacted the number significantly.

The question on CFROI, I think the 15% compared with our target more illustrates the balance sheet capacity that we've got and ability to take more on the balance sheet and still retain an attractive return on investment at 12%.

We will be step -- as you heard in the presentation, we will be stepping up our capital expenditure on tangible fixed assets and that clearly is needed to service the growing markets, the emerging markets in terms of just putting more assets on the ground opposite the volume growth. We do believe that we can manage that to 5% of sales and if we do that and if you take our growth expectations towards our 2020 target, I would expect actually some leverage in terms of asset turns even though we are spending 5% of sales, which is higher than the historical average. So I don't see this being a margin issue as much as a balance sheet capacity issue.

Neil Tyler - JP Morgan

Okay. And just to be clear, that 5% of sales is effectively a medium term stem up as opposed to just to reflect some shorter-term or one-off capacity expansions.

John Ramsay

Yes, that's a, more a medium-term outlook in terms of what we think we will need to spend to service the volume growth.

Neil Tyler - JP Morgan

Understood. Thank you.

Operator

Thank you. Your next question comes from Tony Jones from Redburn. Please go ahead..

Tony Jones - Redburn Partners

Morning everybody. Tony Jones from Redburn. I've got a couple left. And firstly going back to FX and COGS inflation, I know that you commented briefly on the direction, but could you provide any guidance on the magnitude for the coming year? That would be really helpful.

And then on your investment in seed production, is this about bringing in-house some existing sales or is it all pure expansion? So I'm trying to get a sense of what will it do for margin.

And then finally on glyphosate, is it still the case that this is one of your main raw materials in terms of percentage of your COGS? And, if so, with current hikes in market prices is this going to be a big inflationary factor for next year?

John Ramsay

Thank you Tony. First of all, your first question on ForEx/COGS, I think from the presentation you'll have seen in 2012 the impact of those two combined was a total of $325m. The largest part of that being currency and about $90m coming from COGS. And this is I think in line with what we'd said, between $300m and $350m. Now we don't expect that recurring because we've now seen exchange rates move, and that was largely associated with the Swiss Franc.

But looking forward, at this stage, and I always hate to comment on exchange rates, but nevertheless at this stage looking forward we would expect a bit of a positive from currency and we'd expect a slight negative from COGS. Overall I'd expect a neutral impact and that is quite a significant difference from the $325m in 2012.

Seeds investment, yes, this is for expansion basically. But if you look at where we are today in some of these markets, a lot of contract work, and so initially this will substitute for some contract work as well as fundamentally servicing anticipated expansion. And therefore these investments will be positive overall on the margin both in terms of substituting for contract work and indeed getting operational leverage as we service an expanded business.

I must say I'm not entirely clear of what your question was getting to on glyphosate. The situation on glyphosate is that prices have risen significantly. We would anticipate, depending on how the market develops in 2013, we'd expect to see prices continue to --- there'd still be upward pressure on prices on glyphosate. Now of course this is inflationary, but the costs are also inflated. We buy in the glyphosate and the price increases are basically a response to higher cost and a shortage of supply, and of course that has an inflationary impact. So even though it might dilute the margin we do expect to cover all our cost increases with the price increases.

Mike Mack

Tony, are you still with us?

Tony Jones - Redburn Partners

Hello. Sorry. Just a quick follow up on the Seeds question. Are you able to provide any indication what proportion of your Seeds you have contracted out at the moment or is it most of it?

Mike Mack

I think that what John is suggesting here is we're just, we're up against the outer limits of our current capacity. We have three corn seed plants in Brazil. One in Ituiutaba. We've got a smaller one in Formosa and we have one at Matao. And what we are doing is significantly expanding our Formosa site, which we opened a few years ago. When we opened it we anticipated with success that it would need to be substantially expanded and we are just getting round to that now, but we need the capacity to fund the growth, so a terrific payback and we'll be getting started soon.

Tony Jones - Redburn Partners

Great. Thanks very much Mike.

Mike Mack

Thank you. Operator, we have time for one more question, I understand

Operator

Thank you. Our next question comes from Andrew Benson from Citi. Please go ahead.

Andrew Benson - Citigroup

Thanks very much. You haven't mentioned your market share in US corn and soy, how you are doing there? You did talk about I think Roundup Ready 2 implementation and I noticed your, the chart whereof high growth in corn and soy, the soybean one doesn't look too good. Can you just perhaps elaborate a little bit on your soy strategy and how you are going to get that moving and where you are in the US?

You may have mentioned it but apologies because I probably had to get up too early this morning, but working capital, that $1b of increase for $1b of sales, it seems -- I don't really understand that.

Plene, can you just elaborate a little bit on that? I noticed that is growing but where you are. I think about six months ago you said you had $300m of forward orders. Just perhaps give us some more space.

And then on slide 31, on your water optimization, can you just clarify that as well? I didn't really understand. Is that the Artesian? Is that the new stuff?

And if it is 9m irrigated acres you are targeting, why in three years' time are you only looking to actually have 0.25m acres planted?

Mike Mack

Great. Well, okay, good morning Andrew. First of all on the soybean strategy, our Roundup Ready 2 [minutes] has gone up from 30% last year to about 60% now this coming season and of course that shift has been driven by, in no small part the trait provider, the licensee, as you might know, of Monsanto. And farmers have shifted to that new technology and we're now in a position to shift along with it. And we've got a great offer. The germplasm comes along nicely. And hopefully we'll expand some of our share in soybean this year, but the market is still in front of us, as you know.

Corn, the same answer. The technology that we have, we've spoken of not only the insect traits. Of course we've got the Enogen where the number of ethanol plants that are interested in this technology continue to come along nicely.

And hook on now to your last question about water opt, water optimization in the United States is just another example of what can happen through an integrated offer to corn growers. And in this case, no, it's not exclusively a discussion about Artesian, which in and of itself has been a native trait development that has a lot of benefits for growth. Water optimization is where we get alongside a grower, again who is working on -- with some irrigation, and it just shows that through the delivery of chemistry alongside the good genetics and alongside the trait vector that we have, that growers can drive down the amount of water that they use.

And water is going to continue to be an increasingly important discussion so imagine what could happen in a place like the United States where there is so much irrigated land.

Growers will be able to have equal yields using 25% less water. So it's really just, the point here this morning is a testimony to what can be done by having a wide tool box across multiple technologies.

Andrew Benson - Citi

I can see that, but why are you only targeting 2.5% market share? It seems, I don't know, it just seems a bit small.

Mike Mack

Why are we only targeting 2.5% market share?

Andrew Benson - Citi

You are targeting 0.25m acres by 2015 out of a potential market of 9m.

Mike Mack

Right. Well, if we have a bigger penetration then we will update you on that as well. I think what we've never done, particularly in the United States because it is a very competitive market is to get out in front of ourselves on what this can deliver. I think we stand behind the offer and the quality of the integration, and point to places like Brazil where in subsequent years and having integrated we can drive this technology through to adoption. If we beat this target so much the better.

John, there's a question from Andrew about working capital.

John Ramsay

Yes, Andrew, working capital, I understand your question. Looking at the cash flow we have something like $900m of cash outflow associated with working capital. Let me just, I'll come back to answer the question specifically, but just wanted to make sure people do understand the dynamic on working capital.

And that is that the end of 2011 we had run down inventories to a level below which we should have done frankly and we lost sales in 2012. We have pushed back up again to levels appropriate to a growing market and that's reflected in the inventory numbers in terms of year-end working capital. We also have a dynamic here associated with an increasing proportion of our business in Latin America in the fourth quarter. And despite overall DSOs being record low levels for that part of the world we do actually have higher receivables as a consequence of making quarter four sales.

So our working capital has gone up from 30% of sales to 32% of sales on a year-end basis because of those factors. But in actual fact our average working capital during the year fell by 2 percentage points. And both those numbers are all time lows. We think we are managing our working capital well.

Now coming back to the question of the $900m, basically $500m of that is a consequence of the build in year-end working capital I just described and that's directly due to those factors. You also have to anticipate in that one chart we also have non-cash items being reversed, but which are in EBITDA. The most significant of those is the royalty, additional royalty income of over $200m. That is reflected in that $900m. You also get cash outflows associated with provisions in that number, so environmental provisions and restructuring provisions --- not restructuring provisions, but environmental provisions and other non-cash items are also reflected in there. So that basically makes up the $900m.

Mike Mack

And finally, Andrew, you asked a question about Plene. Hopefully you'll be able to join us later on this year where we are going to show you what we are doing down there in sugarcane. Plene, the concept, continues to come along quite nicely and the quality of the germplasm through these -- through this biofactory has a huge amount of demand throughout that system. And you get a sense for how we're scaling this, not only from our plant in Itapolis, but how are scaling it alongside some of the sugarcane growers down there. So the underlying demand for that continues to come along nicely.

It's a bit more -- the bigger part of Plene, the budsets themselves, is going to be of course over the coming years. In the meantime of course I think the growth of our CP sales into sugarcane is evidenced, 37% growth year on year, talks a lot to the ability of the sugarcane growers to understand how integrated technology can drive yield up. So it continues to be one of the really exciting growth opportunities in the strategic crop of cane.

Andrew Benson - Citi

Thanks very much.

Mike Mack

Okay. Thank you. Operator, I think that concludes our presentation this morning. And ladies and gentlemen, thank you again for joining the 2012 full year results. Jennifer and Lars of course in Investor Relations happy to answer any additional questions that you have. And with that wishing you a pleasant day. Thank you very much.

Operator

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

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