Syngenta
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Chaired by Mike Mack

Jennifer

Good morning, and welcome to the call. I'm joined here in Basel by, John Ramsey, CFO, and our CEO, Mike Mack, who is dialling in from the West Coast of the United States. The slides to accompany today's presentation are on our website www.syngenta.com and I would first like to draw your attention to the cautionary statement contained at the beginning of the presentation. Having done that, I will hand you directly to Mike, who will begin the presentation starting with slide number four, First Half 2011 Overview.

Mike Mack

Thank you, Jennifer, and good morning, ladies and gentlemen. Many of you will have attended our Capital Markets Day, in June, at which time we talked extensively about our strategy and our portfolio. Today's presentation, therefore, will focus on first half results and performance with, of course, some comments on the short-term outlook. I'll start with an overview, on slide four.

We began the year with strong volume momentum, and I'm happy to say that this continued into the second quarter. Crop prices, although volatile remained at high levels, stimulating investment by growers, notwithstanding some adverse weather conditions. The breadth of our business across many crop markets enabled us to accommodate, and in fact, benefit from shifts in planting and product usage. Encouragingly, the second quarter was not just a volume story. Prices in crop protection were unchanged, and we expect positive pricing in the second half. As you saw from our announcement this morning, we will be implementing price increases for the 2012 season. And in seeds we achieved another significant improvement in profitability.

As we said in February when we launched our new strategy, in the interest of transparency we continue to report the financial performance of both the crop protection and seeds businesses separately. But as we have already shown many of you at the Capital Markets Day, our strategy is squarely focused on the development of a fully integrated offer on a global crop basis, and this will involve a single sales force marketing the entire portfolio. We have already completed the integration in three of the 19 territories, 17 scheduled to be completed by the end of the year and the remaining two by mid 2012, a whole six months ahead of plan. The global teams for our key crops are fully operational and are already working alongside territory and regional management. We have presented integrated pipelines for seven of our crops, with a combined value of more than US $17 billion post 2015.

Please turn now to slide five, which provides the first half update by region. Let me start with North America, which saw a whole series of weather challenges. Drought, affecting wheat-growing states, followed by rain induced delay to corn planting, and then finally, cold conditions which threatened crop progress. In the end, though, corn acres are forecast to remain at a high level, with the attraction of $7 corn outweighing the difficulties growers have encountered. Demand for feed corn continues to grow, and while there has been some uncertainty on corn use in ethanol, following the proposed removal of the subsidies, it's clear that this segment of the market will continue to play an important role.

Europe similarly experienced weather challenges, most notably a widespread drought in the second quarter, and this caused an acreage shift from cereals into corn, although overall, as in North America, high commodity prices incentivised growers to invest. In the CIS, weather conditions were more favourable than in 2010 and we saw a strong recovery in those countries. Turning to Asia Pacific, high rice and cotton prices accelerated the ongoing productivity drop. The need to improve yield and quality is present across all emerging markets in the region, although it's China which continues to have the greatest impact on world markets, with increasing imports not just of soybeans but also now of corn. In Latin America, the conclusion of last year's season clearly showed the positive impact of a high soybean price on acreage and on investment, with a consequently increased yield. Government focus on agricultural exports continues, in the case of Brazil and Argentina, while for the smaller countries in the north and the west self-sufficiency and economic development are the prime objectives.

Slide six shows our integrated sales growth, in the context of these regional developments. In Europe, Africa, and the Middle East we saw an exceptional performance. The strength of our corn portfolio enabled us to fully benefit from the acreage shift, while in the CIS our leadership in sunflower seeds was a major advantage, in the improved environment I just mentioned. In North America growth was led by seeds, and reflected our enhanced corn portfolio. Crop protection sales were affected by lower pricing, and by high open channel inventories in Canada, although the second quarter saw a significant improvement in the pricing of that versus the first quarter. In Latin America, where prices were up, we saw strong growth, particularly in fungicides and insecticides, as well as an expansion of seed sales across the crops. In Asia Pacific, our established local teams are experiencing firsthand the eagerness of growers to embrace new technology and modernised farming practice. Rice is a key area of focus, and we have a broad range of crop protection products, including DURIVO, which is expanding rapidly, and it is now also available on vegetables, which is another huge potential in the region.

I'll now touch on some of the highlights in the Northern Hemisphere regions, which represented two-thirds of the business in the first half – turning to slide seven. In Europe, Africa, and the Middle East, we achieved strong growth in Western Europe despite the adverse weather conditions there. In the largest market, France, sales were up by more than 15%, with the successful launch of AXIAL, on cereals, and the expansion of CALLISTO and CRUISER, on corn. In the CIS sales increased by more than 50%, with further growth in sunflower as well as in other crops, and the extension of the crop protection product range. We also saw double-digit growth in vegetable seeds, complemented by our excellent offer in CP. We are now building fully integrated offers in vegetables, such as the Almeria pepper programme in Spain, which includes beneficial insects from our Bioline business, enabling us to satisfy stringent value chain requirements. Our new partnership with Marrone Bio Innovations will take these offers a step further, by allowing us to incorporate a bio fungicide for the treatment of mildew and other diseases into our integrated crop management programme.

Moving on to North America – slide eight, where, of course, the spotlight is on corn and soybean. These crops were a key driver for AZOXYSTROBIN sales, where we not only saw spectacular volume growth, but we were also able to raise prices. Our confidence in the capacity expansion for AZOXYSTROBIN, completed just last year, is now clearly paying off. In corn and soybean seeds our new trait, VIPTERA, was present in 20% of the portfolio and met with a highly positive grower response. Overall endorsement of our traits is increasing, giving rise to new licensing opportunities. We are proceeding towards the introduction of a full refuge reduction offer next year, having already received EPA approval for our structured refuge products, and we have completed submissions for our Refuge in a Bag.

Our strategy will combine our leading seeds and chemical portfolios. On July 1st we brought together our North American sales force, in order to implement our strategy, which means offering integrated programmes through our distributor partners. As for our corn and soybean farmer dealer network, our ongoing investment in seeds means an increasingly attractive offer to them as well. And with that, let me now hand you over to John for a review of the first half financial performance. John.

John Ramsey

Well, thank you, Mike. Good morning. I'm pleased to present today, results which demonstrate a strong business performance, reflecting continued volume momentum and a marked improvement in crop protection pricing. Starting with slide ten, sales reached US $7.7 billion, an increase of 14%, or 12% at constant exchange rates. Volume was 12% higher across the business, with price only marginally negative. In the second quarter prices were stable for both crop protection and seeds. The gross margin, at constant exchange rates was slightly ahead of 2010, at 52.1%, reflecting a significantly improved seeds margin, which more than offset the effect of lower crop protection prices in the first quarter. EBITDA increased by 10%, at constant exchange rates, to US $2.15 billion. Driven by higher operating income, net income was up 14%, at US $1.4 billion, resulting in a 12% increase in earnings per share, to US $15.60. Higher income and a significant reduction in inventory levels resulted in a first half free cash flow of US $249 million, ahead of 2010.

Turning now to the evolution of reported sales, on slide 11 you can see that currency had a positive effect on our top line, of US $186 million, over 2%, reflecting the weakening of the US dollar. The positive volume momentum in crop protection and seeds contributed US $567 million and US $262 million respectively. Almost 60% of this volume growth was from emerging markets. Given the growth in emerging markets over recent years, the seasonality aspect of our business has reduced and we now generate a greater portion of our sales and income in the second half. The strong volume performance was marginally offset by lower prices. Pricing in the second quarter was flat, reflecting a marked improvement from recent quarters, and I will return to pricing in a moment.

The next few slides cover in more detail the performance of our crop protection business. On slide 12 we can see sales at constant exchange rates were 10% higher, at US $5.6 billion, driven by volume growth of 12%. Prices were 2% lower for the half, reflecting the first quarter decline. Negative price variances, related largely to herbicides in North America, essentially reflect year-on-year movements rather than further price declines, although higher opening inventories in Canada, due to adverse weather conditions, did have some impact. In the second quarter, volumes were overall 9% higher and prices were unchanged. EBITDA of US $1.64 billion represented a margin of 29.3% at constant exchange rates, around 2% lower than last year. The majority of the reduced margin came from lower pricing seen in the first quarter, as well as continued investment for growth, in areas such as emerging markets and development expenses for new technologies like, PLENE on sugarcane, and TEGRA on rice. With improved pricing in the second half, I expect the full year EBITDA margin in crop protection to be above that of 2010, at constant exchange rates.

As slide 13 shows, the pricing situation in crop protection has steadily improved over the last four quarters, reaching price stability in quarter two. Market sentiment remains positive, as evidenced in our volume numbers. We are seeing volume growth across all regions and all product lines. High commodity prices continue to incentivise growers to maximise their yield, and whilst growth has been higher in emerging markets, developed markets have also delivered a strong performance. Latin America prices were already higher in the first half, and the outlook for the overall business, for both volume and price in the second half is positive. As we announced this morning, we will put in place price increases across the business in the second half of the year, with the aim of achieving for 2012 an overall pricing increase in the range of mid single digits.

Moving on now to the next slide, slide 14, we can see the performance of our new products launched since 2006. R and D investment in a strong chemical platform continues to be a key element of our strategy, and as our new product sales show we have consistently delivered strong returns on this investment. Sales rose significantly in the first half, reaching US $386 million, generating a compound annual growth rate of 47% over the five-year period. AVICTA sales increased over 70%, following its launch on soybean in the US, as well as extended use on cotton. The cereal herbicide, AXIAL continued to show strong volume growth, due primarily to its launch in the major European cereal market of France, as well as in Iberia. DURIVO continued its significant growth trajectory, with sales up 85%. The launch in China contributed significantly to growth, as did the expanded use of DURIVO on fruit and vegetables in Brazil. The second half of 2011 will see DURIVO launched in a further 13 countries. Sales of REVUS were up 24%, driven by continued global expansion and a particularly strong first half on potatoes in Northern Europe. SEGURIS, the brand name for isopyrazam, saw first sales on wheat in the UK.

Moving on now to slide 15 to look at our seeds business performance, seed sales increased 17% to US $2.1 billion, representing over 25% of our total business in the first half. Volumes were up 15% and prices up 2%. Sales grew in all regions and all product lines. EBITDA increased significantly to US $537 million, with the EBITDA margin increasing at constant exchange rates, from 20% to 26.4%. The overall improvement in margin reflects the continued success of our corn portfolio, and new product introductions as well as higher licensing revenue. Strong product performance in North America, as well as new product registrations in Latin America, put us in a positive position as we approach the main Latin American season in the second half. The continued excellent performance of our sunflower and vegetable businesses has also made a significant positive contribution to our improvement in EBITDA. Sunflower sales were up significantly in the CIS, reflecting increased demand for high value sunflower hybrids. In vegetables, favourable market conditions as well as the high quality of our portfolio drove strong growth. Looking forward, for seeds overall I expect to achieve our 15% EBITDA margin target for this year, with further margin expansion in future years.

Slide 16 shows you the progression of our operating income, which increased 12% in absolute terms, to US $1.9 billion. As you can see, the operating income impact from volume growth was US $429 million, with price marginally down, US $49 million. As we previously outlined, we will continue to make growth investments in our business as we implement our new strategy and continue to grow in emerging markets. The first half expenditure of US $110 includes continued investment in research and development and emerging markets, as well as in new integrated offers. It also includes further investment in information technology systems to underpin the new operating model. Cost inflation increased US $30 million, reflecting higher inflation levels in emerging markets. Within other business performance there is an element of increased employee variable remuneration, reflecting our growth expectations for 2011.
It is worth highlighting that currency had a negligible impact on our operating income in the first half, and slide 17 looks in more detail at currency.

As we all know, the Euro crisis and US debt situation has created a very volatile and uncertain outlook. This has resulted in a first half year-on-year appreciation of the Swiss franc, versus the US dollar, of 15%. Our total cost base is approximately 15% Swiss franc denominated, with very little offsetting sales revenue. An increase in Swiss franc costs linked to the weakening US dollar was, however, mitigated by hedging gains, and we continue to hedge at around 75% of our overall exposure. Inevitably, based on exchange rate evolutions over the last year, we will begin to see an adverse effect on the second half linked to the movement in year-on-year hedging gains. For the full year, I expect in the region of US $75 million negative currency impact at the EBITDA level, but this will be a bit more negative at the operating income level, reflecting the non-cash impact of currency on amortisation and depreciation. In 2012, again due to year-on-year exchange rate movements, I would anticipate further negative currency impacts. However, with our cost savings and efficiencies starting to come through, I expect that these will offset the impact on EBITDA.

Slide 18 shows the detail of our net income, which was 14% higher at US $1.4 billion, in the first half. Earnings per share increased 12% to US $15.60. As you may remember, in February we announced that we would report net income after restructuring, but continue to monitor earnings per share before restructuring costs. Net financial expense marginally increased to US $67 million, and our overall tax rate is in line with last year, at 19%. For the full year, I continue to expect a tax rate of around 20%. Let me turn now to look at the effect of raw material price movements on our cost base.

On slide 19 you can see that our spend on crop protection raw materials is around US $3.5 billion, all of which is managed through our global procurement organisation. The structure of our raw material contracts are such that 75% of them are long-term agreements, and in any given year we renegotiate around 20% of our raw material spend. Given the nature of our manufacturing activity, oil price movements impact our indexed price contracts with up to a 12-month lag. In 2011 our raw material pricing impact on EBITDA is broadly neutral, with negotiated raw material savings covering the initial impact of increased oil costs. Looking forward to 2012, there will be some negative impact from higher oil prices on our raw material cost base. However, given the structure of our contracts, that I have just outlined, and the efforts of our procurement organisation, I expect the impact to be less than US $100 million.

Let me now move on to slide 20, to provide you with an update on the total benefits and costs related to our efficiency programme, which is linked to the implementation of our new strategy. We expect to deliver US $650 million of cost savings, as a result of our new operating model. Since February we have been working in detail on the implementation of the new model, and I can confirm that both the savings and the costs related to the implementation remain unchanged. We will deliver US $300 million through the new integrated supply chain structures, and a further US $200 million from indirect procurement benefits. Indirect procurement covers all non-raw material purchases. Our integrated commercial organisation will contribute a further US $150 million of savings.

Moving on now to slide 21, where we can see the detail of our cash flow movement, free cash flow reached US $249 million in the first half. Average working capital levels, as a percentage of sales declined significantly versus last year, reflecting a very strong performance in inventories, and I'll come back to this shortly. Capital expenditure was lower, at US $193 million, following the completion of the major capacity expansion projects undertaken in prior years. Financing and tax outflows were US $100 million, and acquisitions expenditure was low at US $18 million. We expect strong cash generation to continue as an ongoing feature of our business, and I expect free cash flow in excess of US $1 billion for the full year in 2011.

Slide 22 highlights the benefits of our continued management of trade working capital. This has resulted in an excellent performance in the first half, with a 6% reduction in average trade working capital as a percentage of sales, bringing it down to 37%. The largest driver of the reduction was significantly improved inventory levels. Inventory fell to 30% of sales, reflecting the continued volume momentum in both crop protection and seeds. Throughout this growth phase we have continued to control both our receivables and payables levels. Our credit management activities have resulted in a reduction in average receivables as a percentage of sales, and at the same time we have maintained the average accounts payable ratio in line with last year.

In conclusion, slide 23 summarises the key elements of our full year outlook. We expect to see continued volume momentum as we enter the second half of the year. Market sentiment remains favourable, and our performance in the first half gives us confidence that we will see volume continue to grow as we enter the main Latin American season. In 2011 we will achieve stable pricing in crop protection, on the basis of current pricing levels, and consequently, I would expect to see for crop protection and for the group as a whole, a full year 2011 EBITDA margin improvement at constant exchange rates, versus last year.

As I previously mentioned, we will be putting in place further price increases in the second half across all regions, targeting mid single digit price increases in 2012. And as outlined earlier, I anticipate cash flow to remain strong, and free cash flow to exceed US $1 billion for the full year, enabling us to complete our US $200 million share buyback, as well as having increased the dividend paid in May this year. And finally, I would expect cash flow return on investment to continue to be in excess of 12%, and with that I would like to hand you back to Mike, who will provide you with some further highlights on the outlook.

Thank you, John.

Please turn now to slide 25, for a review of the outlook by region for the second half and then into 2012, starting with North America. As you can deduce from the growth in AZOXYSTROBIN sales I showed earlier, corn fungicide usage is increasing, and we expect to see a significant increase in the penetration rate as applications continue in the third quarter. In Canada, herbicide inventories at the end of the first half were lower, which is a positive sign for 2012. In the North American seed market there are good indications that higher production costs are going to be able to be passed along in the form of higher prices for the next season. In Europe the 2011 season is now largely over, with the exception of a winter oilseed rate where acreage increase is still expected, and towards the end of the second half growers will be making their planting decisions for winter wheat. We are not making any predictions on the wheat price here today, other than that global supply remains tight.

Needless to say, performance in Latin America and Asia Pacific will be key in determining the second half outcome. In Asia Pacific there has been some concern at the progress of the monsoon, but there is still time for sufficient rainfall there. In Australasia it looks as if the winter crop acreage will be up, and across the emerging markets of the region we are seeing increased intensification, both in terms of crop protection usage as well as GM adoption. In Latin America grower profitability remains attractive, with soybean prices still at high levels, and an increasing potential for second season corn. I mentioned at the beginning matters surrounding the removal of the corn ethanol subsidy in the US, and if passed this is to be accompanied by the elimination of import tariff, further opening the way for the import of sugarcane ethanol from Brazil. While this is unlikely to have any impact in the short-term, if Brazilian producers are to satisfy both domestic requirements and export demand, production will need to increase significantly there.

Please, turn now to the final slide, number 26. This year's Capital Markets Days have been designed to show you how our crop-based strategy enables us to meet the different needs of growers worldwide. While needs may be different, there are enormous benefits to be had through extending technologies across regions, and as the new strategy gains momentum the breadth of our portfolio will also re-enforce the quality of our retailer and the distributor network around the world. We will continue to invest in the development of our integrated offer, in order to deliver the innovation we promised, and to expand our already leading presence in the emerging markets, which represent the principal engine of demand growth for the future. Our focus on cost efficiency, and the value we create through integration will enable us to pursue these investments, while maintaining industry-leading profitability. By launching new business models we will expand the size of the market, so that when we talk about above market growth we mean taking a larger share of a larger pie with the benefit of first mover advantage in having created these new opportunities for growth.

That concludes our presentation this morning, and I would now like to open up the call for questions. Operator, over to you.