Half Year 2013 Results
TRANSCRIPT

Contents

Corporate participants	3
Presentation	4
Questions and Answers	122

Corporate participants

Jennifer Gough

Syngenta – Head of Investor and Media 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 Half Year 2013 Results conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, you will need to press *1 on your telephone. I must advise you that this conference is being recorded today on Wednesday, 24th July, 2013. I would now like to hand the conference over to your first speaker today, Jennifer Gough. Please go ahead.

Jennifer Gough

Good morning and welcome to the call. The call will be hosted by Mike Mack, CEO and John Ramsay, CFO. Slides are available on our website, syngenta.com; the presentation does contain forward-looking statements, which may be subject to risks and uncertainties that could cause actual results to differ from the statements. We refer you to Syngenta's available filings with the US SEC for information about these and other risks and uncertainties. And with that, I'm going to hand you straight over to Mike, who will start the presentation on slide number three.

Mike Mack

Thank you Jennifer. Good morning ladies and gentlemen, and thanks for joining the call.

Today we're pleased to report a first half which saw continuing business momentum with ongoing global investments and further evidence that our integrated strategy is meeting the needs of our customers. Underlying sales grew by 7%, despite the unfavourable weather conditions which prevailed in the Northern Hemisphere during the second quarter. We saw growth across all regions with rapid expansion in the emerging markets where sales were up 11%. Two one-off elements affected earnings. Firstly, royalty income was lower compared with the very high level in the first half of 2012. Secondly, along with the rest of the industry, we experienced seeds production costs as a result of the drought that occurred last summer in the United States. Our seeds business continues to show good underlying growth and is a keystone of our underlying offers which continue to expand in both scale and breadth. We look at our target market on an integrated basis encompassing crop protection, seeds, seed care, and traits. While it's early days in terms of market data for 2013, our progress thus far puts us on track to meet our global objective of share gain for the full year.

Please turn now to slide 4 for a review of the business by region. In North America, growers made rapid progress after a late start to the season and corn plantings are now set to be near-record levels. Although the late season did delay some applications, our Crop Protection business had a strong first half with North American sales up 9%, including a significant contribution from seed care. In Europe, Africa, and Middle East, we saw double-digit growth in the CIS, Southeast Europe, and in France, where our corn and cereal herbicides grew strongly. In Northern Europe, second quarter sales were down as a result of the cold wet weather which affected fungicides in particular. In Asia Pacific sales momentum is building helped by an early monsoon in India, and our GROMORE protocols on rice are expanding rapidly in Asian countries such as Thailand and Indonesia and China continues to show double-digit growth. In Latin America, the major markets of Brazil and Argentina both showed good growth in the low season with notably high demand for glyphosate. Grower sentiment there remains strong supported by a high soybean price.

Please turn now to slide 5. When we announced our strategy in 2011, we set three core objectives: integrate, innovate, and outperform. Earlier this year, we outlined our three-level approach to integration shown at the centre of this chart. Near-term success is coming from leveraging our combined field force to increase sales of a combined portfolio. As our experience and thinking across technology deepens we're able to develop integrated offers for yield, quality and convenience that build on these assets. And the final level is the introduction of entirely new concepts enabled by breakthrough innovation. Our significant investment in R&D, between 9% and 10% of sales, is driving progress at the second and third levels across our eight strategic crops thus delivering integration and innovation together will result in the third objective of outperformance. Our customers have always had an appetite for new technology, but they are now increasingly recognising how a broad toolbox encompassing chemistry and genetics will deliver superior results in the field. I shall be showing you a few examples of this later in the presentation but first let me hand you over now to John for a more detailed review of the first half – John.

John Ramsay

Well, thank you Mike. Please turn to slide 7. Our sales in the first half at $8.4 billion were up 2% on both the reported and constant currency basis. The underlying growth of 7% for the integrated business was made up of 4% volume and 3% price. The underlying figures illustrate the progress of our business, excluding the impact of $256 million of corn rootworm trait royalty recognised in the first of last year. And trait royalty, of course, remains a source of value capture for us; last year's amount, however, reflected the meeting of specific milestones in that year and hence has not been repeated. EBITDA was 3% lower at $2.2 billion, with underlying growth of 9%; the underlying margin improved to 26%. Net income was 5% lower, while earnings per share stated before restructuring and impairment, were down 7% but on an underlying basis were 9% higher.

For more detail on the sales progression, please turn to slide 8. I'm pleased to report significant sales progression in terms of both price and volume. Price contributed $198 million with increases in all product lines. There was underlying volume growth in all regions with the strongest contribution coming from Europe, Africa, and the Middle East, up by more than $130 million despite the very challenging weather. The decline in Lawn and Garden volumes reflected the divestments made in 2012 and on a comparable basis sales were up 4%. The negative impact of currency on the top-line was less than 1%.

Please turn now to operating income on slide 9. In the first half of 2012, as you can see on the left, underlying operating income excluding the impact of the corn rootworm royalty was $1.69 billion with a margin of 21.1%. In the first half of 2013, volume and price both had a positive impact on operating income, and we achieved $85 million in savings from our operational efficiency programmes. For the full year, I expect savings of $170 million, which is slightly ahead of our target. We saw significant increase in the cost of goods sold, including higher seed production costs, of approximately $100 million and higher glyphosate costs of around $70 million. The increase in glyphosate costs has been covered by selling prices. With regard to the seed costs, I expect the full-year impact to be around $175 million, taking into account the remaining higher costs, the upcoming Latin American season for early-season sales in North America. Cost inflation in the first half was well contained at $65 million. Growth investments amounted to $110 million, consisting mainly of R&D, with some additional market development costs. For the full year, I expect growth investments of around $200 million as we continue to invest in innovation and in emerging market expansion. Currency made a positive contribution to operating income of $47 million. The full-year benefit should be roughly double this amount. Other items consist mainly of the non-recurrence of the 2012 atrazine litigation charge together with some pension gains.

Slide 10 shows you the evolution of operating margin in the Northern Hemisphere regions. The margin in Europe, Africa, and the Middle East increased slightly even though high margin fungicide sales were affected by the weather in the second quarter. The margin increase shows that we are sustaining a high level of profitability while achieving above-average rates of growth in the CIS and Southeast Europe. The North American margin includes the impact of lower royalty income and higher seeds production costs, and this was partly offset by ongoing operational efficiency savings. The underlying margin in the first half of 2012 was 33.1%.

Turning now to the other regions on slide 11. The first-half margin in Latin America is not representative of the full year because of the low season. Growth in high-margin activity, such as sugarcane and seed care, more than offset the rapid expansion in TOUCHDOWN sales, which have a dilutive effect. Similarly, in Asia Pacific, we saw strong sales of GRAMOXONE, our other main non-selective herbicide, which also had relatively low margins. In addition, market development costs are focused on the emerging Asian markets, which continue to generate substantial growth, with sales up 13% in the first half.

Please now turn to the Lawn and Garden business on slide 12. On a comparable basis, Lawn and Garden sales were up 4% in the first half. The divestments of Fafard growing media and the SHS distribution business in 2012 reduced sales by $92 million, and the consolidation of DuPont Professional Products made a positive contribution of $16 million.

These transactions were undertaken in line with our strategy of focusing on elite genetics and high-value chemistry. The results are already plainly visible in a sharply increased EBITDA margin. The Lawn and Garden business has a higher profitability in the first half by virtue of its seasonality, but we are clearly on track to achieve our objective of a 20% full year EBITDA margin in 2015.

On slide 13. We are pleased with the strong performance of our Crop Protection sales in the first half, with sales up 7% despite adverse Northern Hemisphere weather. The chart shows that we have maintained a 7% average growth rate since 2006, which is when the global focus on the need to increase agricultural productivity really began. In the first half, selective herbicides increased 4% with the further expansion of CALLISTO on corn and AXIAL on cereals. Non-selective herbicides are up 26%, driven mainly by TOUCHDOWN where strong demand and a shortage of competitive products enabled us to achieve significant increases in volume and price. Fungicides were up 4%; Northern Hemisphere sales grew at around this rate even though Northern European applications were lower in the second quarter due to the weather. Key drivers were SEGURIS in Germany and AMISTAR in Brazil and Asia Pacific. In insecticides, growth in the Americas offset slightly lower sales in Europe and in Asia Pacific where there was a lack of pest pressure on cotton in Australasia. Seed care showed excellent growth of 20%. Sales of CRUISER were up 14%, with continuing growth in Brazil and emerging Asia, and there was also a significant contribution from the launch of VIBRANCE.

Turning now to slide 14, which shows the sales of new products more than doubling in the first half. The insecticide DURIVO continues its rapid expansion notably on soybean in both the US and Brazil. SEGURIS is our next-generation SDHI fungicide, which controls a number of major diseases in cereals. In the first half, it was successfully launched in Germany, and elsewhere has also received registrations on vegetables and bananas.

Our new seed care product, VIBRANCE, was successfully launched in North America and Australasia, and slide 15 gives you more detail on this product for which we see peak sales potential of over $200 million. The charts show the trial results for VIBRANCE formulations on canola and cereals. In each case results are clearly superior to existing products on the market. Helix VIBRANCE generates a bigger effect on canola, while CRUISER Maxx VIBRANCE produces stronger roots and protects against insect damage, and both these products were launched in North America in the first half and delivered sales of around $80 million. We're planning launches in all regions and across all major crops by 2016 and expect this product to reinforce our leading global position in the higher-margin seed care business.

On slide 16. We will build further on the potential of VIBRANCE with the launch of CLARIVA on US soybean. This demonstrates our strategy of combining biologicals with chemistry to achieve superior protection against pests. CLARIVA is a breakthrough seed treatment nematicide coming from the acquisition of Pasteuria last year. It addresses the problem of soybean cyst nematode, which causes annual losses for growers of around $1.5 billion in the US alone. Rapid and cost-effective in-vitro production has enabled us to achieve commercial scale, and we anticipate peak sales in excess of $200 million.

Turning now to the first-half performance in Seeds on slide 17. In the first-half, reported Seeds sales were 6% lower but on an underlying basis were 6% higher. Corn sales in North America reflected the lower royalty income and reduced availability of our top traited hybrids as a result of the drought last summer. Sales in all other regions were higher, with particularly strong growth in Asia Pacific and Latin America. Soybean sales were broadly flat, with 60% of the US portfolio now converted to Roundup Ready 2 platform, and we expect 80% conversion for the 2014 season. Sunflower was a key driver for the business, with strong growth in the CIS and Southeast Europe, and I shall return to this in a moment. Sugar beet sales were affected by acreage reduction in both Russia and the Ukraine, partly offset by strong demand in China. And finally, Vegetables is returning to growth after a period of depressed demand in Southern Europe and North America.

Slide 18. Those of you who attended our recent crop update in Russia will be aware of the impressive growth in our sunflower business over the last ten years. I'm pleased to show you, therefore, that sunflower seeds accelerated their growth rate in the first half. And this demonstrates our outstanding genetics base, which allows us to launch blockbuster hybrids and a focused portfolio that enables us to sell high-volume products across many countries. Early anticipation of market trends means that we are the leader in IMI tolerant hybrids and we are now able to integrate IMI chemistry in offers with our pre-emergence herbicides.

On slide 19. We expect to deliver cumulative savings of $460 million in 2013 and are on track to achieve the programme target of $650 million in 2015. The total cash cost of the programme remains unchanged at $400 million, and the total pre-tax charge for the restructuring this year is estimated at $150 million.

Slide 20 gives you the bridge from operating income to earnings per share. And as indicated in our 2011 and 2012 financial reporting, we have, from the 1st of January this year, adopted revisions to IAS 19, which affect accounting for defined benefit pensions. First-half 2012 earnings have been restated accordingly, and the impact on earnings per share in the first-half is small at $0.14. Net financial expense in the first-half was up slightly at $90 million and I expect the full year amount to be around $180 million. And as indicated previously, the tax rate increased somewhat from a low level in 2012. I expect the full-year tax rate to be similar to the first half. Earnings per share were 7% lower, but underlying earnings per share, excluding the royalty effect, were up 9%.

Turning to cash flow on slide 21. The seasonality of our business means that we always experience significant working capital outflow in the first half, and this is what underlies the $1.9 billion outflow you see on the chart. Free cash flow generation occurs in the second half as receivables are collected. Capital expenditure totalled $274 million in the first half and for the full year, I expect around $700 million to $750 million, of which a significant part relates to the expansion of seed production capacity. Acquisition spending is likely to be well below last year's record level of $654 million.

And slide 22 gives you more detail on the evolution of working capital. The graph compares the long-term average trade working capital as a percentage of sales with the half-year period end inventory also expressed as a percentage of sales over the same period. You can see that we've been successful in progressively bringing down average working capital over this period. Mid-year inventories have been increasing as a proportion of the total working capital, largely driven by the growth in our Latin American business and the need to build inventories in advance of the season. In 2013, mid-year inventories are higher than optimal due to the shortened Northern Hemisphere season and our determination not to oversupply the channel. As regards receivables, our strong risk management continues to underpin collections globally, and this is particularly so in the difficult credit markets of Southern Europe, CIS, and Argentina, where our half year collection ratios are higher than in 2012.

Before concluding my part of the presentation, I would like to give you a perspective on our ability to achieve operational leverage. Slide 23 shows the historical progression of operating expenses and EBITDA at constant exchange rates. You will see an ongoing reduction in expenses and an improvement in the EBITDA margin. Currency movements have reduced the cumulative EBITDA margin by some 400 basis points over this period. At constant exchange rates, the margin would have been around 26% in 2012, and this has been accomplished alongside significant top-line expansion, with average sales growth of 8% over the 12-year period. And while we have recently been accelerating investment to support our integrated strategy, I expect an ongoing focus on operational leverage to be a key driver of performance in the future.

Finally, the outlook for the remainder of the year on slide 24. As the chart shows the contribution of second half to earnings continues to increase, due in particular to the growing importance of Latin America. Prospects for the new Latin American season are positive. Soybean prices are robust, and the depreciation of the Real will further increase competitiveness of Latin American growers. Asia Pacific also realises a relatively high proportion of sales in the second half, around 45%. And we are encouraged by the growing momentum in our business in that region, which we think will enable us to further expand our leadership position. Overall, we expect an acceleration in the second half from the underlying sales growth rate of 7% seen in the first half. We also expect growth in underlying earnings for the full year and substantial free cash flow generation.

And just finally, I would mention that we have announced this morning the opening of a second trading line on the Swiss Exchange to allow tactical share re-purchases during the second half. And with that, let me hand you back to Mike.

Mike Mack

Thanks, John. Let's return now to an update on the three levels of our integrated strategy on slide 26. I should like to focus on the second level: integrated offers for yield, quality and convenience. We've given you several examples of these in the past, such as insect and weed resistance management programmes, but to give you some perspective now of our reach, today I should like to briefly cover one new example from each of our regions and territories which typically don't get much exposure, starting with Canada on slide 27.

In Canada, Syngenta has strong channel support and a leading CRM database, which gives us deep insight into growers and their purchasing behaviour. In Western Canada, the typical rotation for the farmer is canola, cereals and then pulses. Canola seed is the first decision the grower makes in the season and the most expensive one. The seed supplier is therefore, well placed to influence purchasing decisions for other inputs on all three crops. In order to leverage our portfolio, we're in-licensing canola seeds, which will allow us to offer growers an integrated solution across their crops. We're currently establishing protocols that focus on maximising total profitability per acre for their entire farm operation. As you can see in the table bottom left, by doing this, we expect to add over $100 million in top-line growth in 2020.

Slide 28, and agroAMIGO in Chile. This is a great example of bringing together the different components of our cereal portfolio and showing the benefits to growers through integrated demo trials. The offers are then adapted to meet differing grower needs. We've been driving the transition from farm-saved seeds to Syngenta commercial varieties, and we now have a 40% share of the Chilean wheat seed market. Through this programme, we're shifting grower perception. Instead of focusing just on yield per hectare; growers are now focusing on the optimisation of seeds and other inputs.

Slide 29. In Vietnam, we're the number-one player in both Crop Protection and Seeds. The integration of our business has driven market share growth, and our overall share now stands at 25%. We're able to offer a broad range of solutions across crops, and a strong partnership with local distributors expands our reach in a fragmented agricultural economy.

Turn now please to slide 30. Our creative local team in Southeast Europe is leveraging Syngenta Genetics and Crop Protection to create a new multi-crop offer, which will see an initial launch this year in Hungary. We're building on our strong local presence in this market, where growers are receptive to new technology; corn investment, for example, is the highest in all of Europe. We're combining technology with agronomic advice in areas such as conservation tillage, to promote sustainability alongside productivity. We're also working in partnership with companies that supply adjacent technologies, including fertiliser and machinery, and we're building third party financial and IS services into the offer, thus addressing a broad range of grower needs.

Moving on to slide 31 now and a recent event, which also fits well into our long-term growth strategy. The acquisition of MRI seeds in Zambia will give us ownership of a leading and diverse portfolio of white corn germplasm, with extensive production areas and contract grower relationships. It will allow us to create a corn seed hub to serve East African markets, with additional opportunities in wheat and soybean. MRI is a leading distributor of both chemicals and seeds that will be a springboard now for our growth throughout East Africa, allowing us to not only gain market share, but also to expand the market, including the introduction of integrated solutions.

Slide 32 provides some context on the longer term supply/demand outlook for major crops. There is broad acceptance of the need to double global crop production by 2050 in order to meet rising demand from population growth, dietary change and biofuels. The bubbles on the chart show historical rates of yield growth for the four crops which supply nearly two-thirds of global calories. If yield growth for these four crops continues at the present rate, production in 2050 – shown in orange – will fall significantly short of the required level, shown in green. In fact, the average rate of yield growth must double from where it is today if we are to achieve the required production levels without needlessly bringing more land under cultivation. This illustrates both the likely support for crop prices in the medium term and, critically, the need for more technology if we are to meet the 2050 challenge.

Please turn now to the final slide on page 33. Our sales performance this year is set to be in-line with the targeted compound average growth rate of 8% to 2020. Over the next seven years, we will grow across each of our eight key crops through global offers tailored to local needs. We will enter into new business models and collaborations in order to expand the available market. And while keeping our eyes firmly on reaching $25 billion in sales by 2020, we will, as John just said, be equally attentive to expanding margins. We will do so through a focus on efficiency and, most importantly, through value creation derived from our integrated offers.

That concludes our presentation, ladies and gentlemen, and I should now like to open the line for your questions. Operator?

Questions and Answers

Operator

Thank you. We will now begin the Question and Answer session. If you wish to ask a question please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request please press the hash key. So that's *1 if you wish to ask a question. Your first question comes from the line of Christian Faitz of Macquarie. Please ask your question.

Christian Faitz – Macquarie Group Ltd

Yes, good morning, gentlemen; Christian Faitz here. Just quickly, can you please talk about current trends in Q3? How confident can we be that LATAM is accelerating? And would you see any late-season effect of current drought conditions in large parts of Western Europe? And how is that also in relation to the inventories you talked about in Crop Protection in Europe at the moment, would you see those inventories moderating going into the 2014 peak season? Those are my questions. Thanks.

Mike Mack

Thanks. Good morning Christian. I mean, first, on the second half. I mean, when I say we've been here before, we've been here before in July, getting as good an optic on the LATAM season as we possibly can. And we're not able, of course, to call the weather because that is a feature. But what do we know? We know for certain that the current soybean price is very attractive. We've got a good product line-up, and growers look set to be going after this market as aggressively as they ever have been, and of course, the market just keeps getting bigger for us and, of course, it's still in front of us. The disease pressure is something else that we know, and Asian Soybean Rust, which is a big disease down there, continues to be quite an aggressive pest, and it needs control. And we've got a leading product line to do that. So everything about LATAM looks set to be just as it has in the past, which is characterized by growth. With respect to the second of the... what's the residual part of the season in the second half here in Europe? There is nothing new to add to the picture. Hopefully, the worst of the weather news in Europe is behind us, and with respect to inventories, as John said in his remarks, we do the very best we can to keep any excess inventory on the Syngenta books as opposed to having it in the channel. And sitting here today, I don't have any basis to believe that the channel is significantly oversupplied because the corollary to your question, of course, is, is there going to be any potential pressure on prices on account of having a lower Crop Protection market than we'd otherwise envisioned? And the answer to that at this stage is no; I don't see that.

Christian Faitz – Macquarie Group Ltd

Okay great, thanks Mike.

Mike Mack

Thank you.

Operator

Thank you. Your next question comes from the line of Sophie Jourdier of Liberum. Please ask your question.

Sophie Jourdier – Liberum Capital Limited

Good morning, yes. Just a couple of, sort of, numbers questions really, if I could. I just want to make sure I understand your definition of underlying EPS in terms of, I guess, your outlook for the full year. You're looking for growth for the full year, but is that excluding the Pioneer income and presumably currencies and also any, sort of, share buybacks? If you could just, sort of, clarify what we should think about for underlying EPS. And second, I just wondered whether you could tell us what license income was in the first half of the year and, you know, the sort of broad outlook is for license income going forward. And then final question, just on Lawn and Garden, you managed to get 21% EBITDA margin in the first-half. I mean, is there any reason why you shouldn't be getting your 20% target this year rather than in 2015? That's all, thank you.

John Ramsay

Yes, Sophie. Just going back to the question of underlying, what we were intending to convey is that underlying was excluding, so far as earnings are concerned, excluding the impact in 2012 of the royalty income of some $250 million. So when we say the outlook for the year and expecting to substantially improve the earnings, then that is related to the 2012 figure after taking out the royalty. So the calculation there is around about $19.70 as the adjusted 2012 number. And we expect, given our outlook, to substantially improve on that

EPS number excluding the royalties I've said. You asked the question about the level of license income. Clearly, this year, for the reasons just stated, doesn't include that amount from the corn rootworm, but the amount of royalty income is around about $160 million, $170 million anticipated for the full year; I think there is something like 90 – nine zero – in the first half, but somewhere around 160/170 for the full year. And then L&G? Well, we'd very much like to achieve it earlier, the 20% target, by the end of this year. But you have to understand that there's a seasonal aspect of the business, so the ratio of expenses to sales is impacted when you see the second-half numbers, and it's exaggerated because of the seasonality in the first half. But we're definitely well on-track to achieve the 20% by 2015.

Sophie Jourdier

Brilliant, thank you very much, really helpful.

Operator

Thank you. Your next question comes from the line of Andrew Benson of Citi. Please ask your question.

Andrew Benson

Yes, thanks very much. Just on the net working capital, I mean, it's a pretty substantial build-up relative to history; if you could just rationalise that? You talked about additional seed costs in the second half; how much are they? And will it get back to, I don't know, whatever normal is, but a more normal trend? Can you talk about pricing outlook into the second half? And the non-selectives have done extraordinarily well relative to the rest, and I was wondering if you could perhaps talk a little bit about how you see the outlook by product category. I mean, some of your competitors are talking about a very strong fungicide demand and now because of the fairly wet weather... fairly wet and warm weather we've got now in the Northern Hemisphere. So just perhaps if you could share with us your outlook views on a category basis, I'd appreciate that. Thanks.

Mike Mack

Thanks. Good morning, Andrew. I mean, I'm going to first take the pricing. Look, I think on a historical basis, we've always, you know, prices on a ten-year look-back have been, what, 50 to 60 basis points altogether, so a pricing of 3% this year is pretty strong, coming on the back of some price increases last year. And you're right to point out that non-selective herbicides were an important piece of that this year. The main season in LATAM in front of us, as I said, is strong. You can well imagine that we're set to have some positive pricing for LATAM. I'm not going to get out there today with exactly what that number might be beyond to say that we expect a positive price environment; that is, for purposes of modelling, it would be in the low single digits. That would be, typically, a good year for us. The question about seed production costs are... I don't expect today... of course, the seeds are still on the ground. I don't expect today that the agronomic environment for growing seeds is going to look anything remotely like it did in 2012. So we've got an altogether different deal, and all we have to do is look at the weather report to see that. And I guess, you know, on net working capital, you said it's far bigger than anything it had been in the past. But our business in LATAM is far bigger than it has ever been in the past, and it continues to get bigger. As John indicated, channel management is something that's really important to us to be sure that we don't get excess product out there, and so the number that you see in H1 of 2013 does reflect the northern season weather. It does reflect our sense of how big LATAM is going to be. But the overall picture is one suggestive of strong management of working capital. John, anything to -- any further colour on that?

John Ramsay

No, not really, just maybe underlining it. I think the point of explaining on the chart in the presentation was to indicate, I think, the way in which we have managed working capital over the years. But to highlight the impact of half-year inventories – and half-year inventories are up 24% –but when you think about the growth that we're expecting in Latin America, which is we're expecting growth of approaching that level, then that's basically needing to build up the inventories. I would say, as Mike mentioned, we've got slightly higher inventory as a consequence of carryover from the Northern Hemisphere. But fundamentally, the inventory has been stocked up in anticipation of the Latin American season. On receivables, just to highlight the point, I think we're in a pretty good shape there, particularly in markets with particular credit risks of Southern Europe, CIS, Argentina, for example. And then our collection ratios in all of those countries, year-to-date, are ahead of 2012, so something which the teams are very proud of. But the half-year inventory is really explained by Latin America.

Mike Mack

Did that answer your question, Andrew?

Andrew Benson

Yes, primarily; I'm just wondering about the Crop Protection on a category basis because, you know, fungicide is a bit weak and non-selective is very strong, just perhaps if you could give a little bit more colour there on the outlook.

Mike Mack

Let's start with the fungicide because that's what you asked about. The fungicide to corn in North America is underway right now, and it will conclude within a few long weeks from now. I expect that market to be a smaller market than we would have liked; it's a growing market. But any time that the corn gets in the ground later, then even though the economics for applying fungicides still prevail, it ends up getting a little bit too close to a harvest window for them to be comfortable. So I think it's still going to be an adoption rate into the 20s, but it won't be a bigger market than it was in 2012. And fungicide use in Asia Pacific continues to expand really nicely. So that, as a category, that is easily one of the largest categories in the Crop Protection area. Okay? Operator?

Operator

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

Rakesh Patel – Goldman Sachs

Just a couple of questions, if I may. First of all, I just wondered if could you talk about how you see the progression of licensing income, I guess, going forward, I mean, these new products that you've been launching that could potentially be licensed out. So I wondered if there's any significant colour you could give us on how we could try and think about that going forward. Secondly, I wondered if you could give us just a short update on Enogen. I think there's been about four commercial contracts in the past. Are you seeing that escalating? And then finally, just on the LATAM business, there's a lot of products, I guess, coming up that should be registered and out there. Does that include Solatenol, which I think has been a big product that you've highlighted in the past? Thanks very much.

Mike Mack

Thanks. Good morning, Rakesh. Well, first on licensing income, obviously, the big deals would be significantly material that we would make announcements, and we'll keep you apprised of those along the way. But all you have to do is to look at our trait pipeline in the recent announcement that we've got full registration now of Duracade, and the ongoing resistance to insects are such that the potential for this remains quite good. The underlying license income, as we've said before, is sort of in that $150 million to $250 million range. And that, too -- John just mentioned a moment ago – is set to be about 160 altogether, 160, 170. But we'll keep you apprised, of course, if there's anything beyond that is notable.

And with respect to Enogen, we have eight trials right now, and the encouraging thing about Enogen, Rakesh, is that we're able to pull through not only corn seed, but the growers that back up these plants are also incorporating Syngenta's Crop Protection chemicals. Of course, there are seed treatments. So the benefit accrues to our company not only through helping the productivity of the ethanol plant, but it also enables us to have these corn seed growers, frankly, getting a look at an integrated offer, in some cases for the very first time. And so ICS, or integrated crop strategy rather, is getting some good traction now in the bioethanol area in the United States.

Finally, on Solatenol, I don't want to handicap what the registration authorities in Brazil are going to do or when they're going to do it beyond to say that the registration package is in great shape, and we continue to expect registration for the upcoming season. And we'll be sure to get that announced when we have that in hand. But the product is just terrific, and it will put quite some distance between us and all of the competition on this important pest that needs to be controlled down there.

Rakesh Patel

That's great. Thanks very much.

Mike Mack

Thank you.

Operator

Thank you. Your next question comes from the line of Andrew Stott of Bank of America Merrill Lynch. Please ask your question.

Andrew Stott – Bank of America Merrill Lynch

Yes, good morning all. I've got a few, actually. Number one, for John, on the bridge, I think I might have missed it, but there's another positive contribution of $100 million to income. Could you just explain what that other $100 million is, please? Number two, when you guide for growth in underlying earnings for the full year, where in your head is second-half versus first? So your first-half is plus nine or minus seven depending on how you define it; do you think the second-half has...? Is there any quantification you can put on that second-half rate of growth as you see things? Or just give a general guide for the differences on costs between the second-half and first. The third question is more on US corn. Mike, you mentioned in the slides in your commentary about hybrid availability in '13 being a problem, which, obviously, is related to last year's drought. Is that only a one-season impact? Or could it be a multi-season impact? I guess it's an ignorant question about seed production, but if you could just help me on that. Thank you.

Mike Mack

Well, I'll take that third question first and hand it over to John. Is it a multi-year impact? No, provided we're able to get these things bulked up. I mean, the disappointing part, Andrew, any time you can't get new product that is good product where we can introduce it to growers for the first time, is disappointing inasmuch as our company right now, because we've got a leading trait portfolio, because we've got some exciting products out there, we're in a position now, frankly, rebranding Syngenta corn seed in the US in an attempt to expand our market share. So if there's a... the disappointment is that will be slightly delayed on account of not having as much of the hybrids as we might otherwise like. But surely, we're getting as much of that into the summer production that's right now in the United States. And as need be, we will put these things into winter production in Argentina and Chile in the fourth quarter of the year. So we're going as fast as we can. But the disappointment was just around not having as much as we would like. John, on the $100 million and then the EPS comparison?

John Ramsay

Yes. Second half -- Andrew, second half EPS, we do expect double-digit EPS growth in the second-half on the second-half last year. Maybe just try and help a little bit in terms of the dynamic, in understanding. Of course, you're aware of it. It's about the Latin American season, and that has been increasing. I think we'll have something, according to our plan somewhere approaching 45% of our total sales for the year in the second half, and probably, of the second-half sales, about 50% of it coming from Latin America. The consequence of that on operating income going down to EPS is that we've been seeing an increasing proportion of our total full annual income being earned in the second half. We've seen this progressively over the last four or five years. And we will see, in 2013, a continuing increase in the proportion of the profits earned in the second half compared to the first half. I hope that helps. In terms of the bridge, the bridge is, essentially, two items. The first is the 2012 comparison because in 2012, we had the atrazine litigation settlement, which was a net 80 – eight zero – million. So that's part of it. The other part of it is a gain in 2013 associated with changes in our pension arrangements in Switzerland, which is basically reflecting current market conditions on the annuity conversion rates that we have had for our employees in Switzerland. There's a full exposé on that in the press release in the appendix. But that explains the $100 million.

Andrew Stott – Bank of America Merrill Lynch

Great, thank you.

Operator

Thank you. Your next question comes from the line of John Klein of Berenberg. Please ask your question.

John Philipp Klein – Berenberg

Yes, hi. Good morning, and thanks for taking my questions. I think I've got four of them. The first one is on numbers. You are having, in your income statement, in the line, Other, General and Administrative, these costs reduced quite considerably year-over-year; maybe you can give a comment on that. Second would be on profitability. Your increase in the margin, can you guide us a bit on where that majorly came from? We saw quite an increase in non-selective herbicide sales, which is usually not the most profitable product. Did you have strong pricing in that? Was it the seed care part? How did you manage to increase underlying margins? And then thirdly, could you give us a brief outlook on your view on seed production costs in 2014 under the assumption that crop prices are coming down somewhat in 2013? So should we see a reversal of this $100 million of increased cost that you had in the bridge? And then fourthly, just to confirm, your sales growth guidance, if you say for the full year you can grow in-line with your targets, is that excluding the royalties for 2012? Or is that on a reported basis? Thank you.

John Ramsay

Okay. John, let's go through them. The first one on the income statement in terms of the other G&A, then I think there are two reasons for that -- well, three reasons, in fact. We have got some underlying savings. But also, I think it's impacted by the comparison with the actions in settlement in 2012, which I just mentioned in the answer to Andrew. And in addition, there is some currency gains this year, which will impact the comparison. So that really explains that. The underlying profitability, well, yes, it's a combination of factors. We have price increases. And we have also managed to improve the EBITDA margin in Lawn and Garden, which comes through on a group basis to improve the overall profitability. And we have got an ongoing savings programme, which we've had in place to enable us to offset the investments in growth that we've been running for a couple of years, so various contributions there to enable us to meet that underlying improvement.

Seeds product cost in 2014, yes, you're right. It will largely depend on the... you can't necessarily take the grower costs at any one point in time because these contracts are struck at different times through the growing season. But yes, directionally, as a consequence of crop prices coming down we should see some benefit coming through from that. It should be a reversal of the impacts that we've had to endure in margin terms, in terms of higher growth costs in both 2012 and 2013. So we have to really wait and see where the average works out at as we go into the season. And I think your final question was about just a simple understanding of what we meant in terms of targeting our long-term strategic target in terms of sales growth. That is very much, on a reported basis, in terms of just a straight top-line comparison between where we're targeting now for the full year 2013 compared with the reported number in 2012, which includes the royalty.

John Philipp Klein – Berenberg

Perfect, very clear. Thanks very much.

Operator

Thank you. Your next question comes from the line of Patrick Lambert of Nomura. Please ask your question.

Patrick Lambert – Nomura Securities Co. Ltd

Good morning, thanks. I have a few. The first one, again, on licensing, could you help us, understanding the recurring parts of this licensing income? And in particular, GreenLeaf, can you update us on the outlook you have? What type of revenues you're expecting from the GreenLeaf development? That's one. The second one, regarding savings, I think you mentioned, and I think on the chart is 160, and then on the talk you said maybe closer to 170. Do you keep the same split between COGS, savings and dealer COGS type of savings? That's the second question. Sugarcane, also, you mentioned sugarcane as a good development in H1 in LATAM. What can we expect for the second part of this year, a similar type of growth in last year? Or do you see even more penetration of your Crop Protection? Could we see some plenty, early sales in H2? Question number three. And number four, regarding a very interesting chart on sunflower CAGR. Could you comment a little bit on volumes and price in sunflower? How much pricing you've been able to pass on with your higher quarterly sales? That's question four. And if I may, another one, long-term, the 400 basis points FX impact for the past ten years; is there anything you're working on that would reduce that in the next decade? Thanks, bye.

Mike Mack

Patrick, your final question was reduction of what in the next decade?

Patrick Lambert – Nomura Securities Co. Ltd

Well, there's the chart on Forex expansion, the impact, 400 basis points. Is there anything structural you could do to reduce that?

Mike Mack

Yes. Look, I mean, I'll take, I guess, briefly your items three and four. And then it's... Look, you were in Russia, Patrick, and I don't think there's a lot I can add to the sunflower success because you saw it, you know, the quality of the hybrids that we have there is driving volume expansion. And you will recall well the question about pricing opposite growers. And we command a significant premium for our sunflower seeds on account of the value that they bring to the growers there. And so it's substantially ahead of any of the local varieties. And our margins, of course, reflect that. With respect to sugarcane in Brazil, what we do know is that we continue to grow the underlying Crop Protection business of this very, very nicely. It wasn't all that long ago that this was a $30 million business, and now it's well over a $200 million business, just supplying the chemistry into this segment. And with respect to PLENE, for those of you who are going come down and visit us in Brazil at the end of the year, you're going to see this. And the opportunity to get deeply into germplasm and to help them with the cutting material that they use to replant this is going to be terrific. But the revenues from that are going to be more material towards the back end of the decade than it is anything that you're going to see significantly so in H2. John, the questions about savings, as well as Forex?

John Ramsay

Yes, so I think -- Patrick, I think the savings one is the easiest to answer. The ratio of COGS to expenses for the full year is broadly similar to the first half, and also similar to what we've said, although slightly higher but in similar ratio. And licensing income, your first question; essentially, the number that we gave out earlier in terms of 160, 170, the largest part is coming from GLG. And the dynamic behind that is essentially volumes in the market. So as we expect volumes to grow from the third parties that we're licensing to, we'd expect to see that go up. I think, actually, it's a little bit down from our plan this year because of probably slightly less volumes coming from the independents. But there is no reason not to expect that to grow in line with market rate broadly speaking in the future. And then, of course, you've got the question of the more periodic and licensing income on top of that, which will come on less predictable basis as we saw in 2012. Your final question was about, what can we do structurally to avoid the Forex? Well, we could move out of Switzerland. That would be one way of dealing with it because it's all the dynamics of the currency effect, the largest impact in that, the continuing, unrelentless appreciation of the Swiss franc. But, you know, we do have to be bear in mind that we do get some form of tax benefit from that, which is the other side of the equation.

But look, the serious point behind your question is that we won't be leaving Switzerland shortly, but we do look for every opportunity to avoid taking unnecessary Swiss franc costs where we can avoid it and try and operate in dollars where we can. But we have to just appreciate we are based in Switzerland. We have research here for manufacturing.

Mike Mack

Thank you, Patrick. And for the purposes of transcript, John said we won't be leaving Switzerland shortly. We won't be leaving Switzerland longly either. So I think we've got time, Jennifer, for a few more? Two more. Operator?

Operator

Thank you. Your next question comes from Laurence Alexander of Jefferies. Please ask your question.

Laurence Alexander – Jefferies LLC

I just have two questions that are related. First on Enogen, can you give an update on the yields you're seeing? And roughly, how many acres you would need to fully replace the North American alpha amylase market for ethanol? And secondly, given the success you're seeing with VIBRANCE and CLARIVA, can you give a sense for the amount of capital you needed to invest in both of them to launch them, and how that is affecting your thinking about the appeal of investing more capital in output traits?

Mike Mack

Right. You see, CLARIVA isn't an output trait, just to be sure and clear, Laurence.

Laurence Alexander – Jefferies LLC

Correct. Yes, correct.

Mike Mack

Okay. You're saying the capital to launch CLARIVA?

Laurence Alexander – Jefferies LLC

Well there's a total investment cost of, including the Pasteuria acquisition and the development costs compared to doing a new output trait.

Mike Mack

Okay. Well, I'll give it a go, and then if you've got a follow-up question, we can do that. First, Enogen, to give you some perspective, I said we're in eight plants. Of course, all plants have slightly different size, and they operate in a slightly different way. But you should think about eight relative to some 180 plants in the United States. That's what we're currently operating. Our value proposition though would broadly be addressable to all of these 180. So to give you some sense for the market potential for us and here today, the number of the market share of corn that goes into the ethanol industry, currently, is about 34%. I don't know what the final acreage is this year. But that gives you a sense for the potential for Enogen to make a significant difference to pulling along our market share in US corn. And so we're working on it, obviously, with quite a bit of enthusiasm. Now with respect to CLARIVA, CLARIVA is a biological material. We bought Pasteuria – John, 140 million?

John Ramsay

It was that, yes.

Mike Mack

And concluded that last year. So that's now, obviously, part of the company. Along came not only the people and, of course, the intellectual property, but a current product line in bringing this nematicide. It's effectively n to market now at the end of the year, and it's going to have great control of soybean cysts for nematode control. So that's going to further help buoy our seed treatment business. Pasteuria also has other products in the line that we'll bring to market. So when you talk about a market launch, naturally, we will have some monies but they're smallish millions of dollars, to maximise the potential of this product. And it's otherwise going to look quite a bit like Crop Protection chemistries when you bring something through. It's measured in the tens of millions of dollars and takes a number of years, and they need to get properly registered. I'm not sure if I got your question though about CLARIVA versus an output trait, Laurence.

Laurence Alexander – Jefferies LLC

I guess I'm trying to get at two related angles on this. I believe my impression is that the Enogen actual alpha amylase content per bushel is fairly high, so you can actually address the 35% of addressable market by selling -- by actually planting relatively few acres.

Mike Mack

Yes, so thank you. Now I understand. Yes, you're right to point out that for all of the corn that goes into the ethanol plant, it does not need to all be Enogen. In fact, approximately 10% or so of the input can be Enogen. And what we're doing is we're constructing commercial offers to the growers who supply to the ethanol plants; we're constructing commercial offers for them to both grow Enogen corn on our behalf, as well as supplying the non-Enogen corn to those ethanol plants using Syngenta hybrids, non-Enogen hybrids, to use Syngenta hybrids, as well as Syngenta seed treatment and Syngenta Crop Protection chemicals. And we're getting great receptivity to this. So we can get all of the acres that supply the ethanol plants by doing so. That's the aim.

Laurence Alexander – Jefferies LLC

Okay. And then I guess, just what I'm trying to get out on the other question is, if it costs tens of millions to launch a product that can get you $200 million-or-so in peak sales, how do you think about the allocating capital to trait research versus to that?

Mike Mack

Well, I think if you look across the industry – and not every trait is the same – but the cost to bring a new biotech trait to market is circa $175 million to $200 million, from the very beginning all the way to the end. And the cost of bringing a new Crop Protection chemical to market is circa $300 million. That seems to be the widely accepted number over the years. And of course, some of these things have significant potential. Azoxystrobin is for us, which is a fungicide, enjoys well over $1 billion of sales each and every year. So not every payback is the same for every single chemical, nor is it the same for every single trait. But all you have to do is to look at our growth rate and our earning of the firm to understand that as a business model, it's in great shape.

Laurence Alexander – Jefferies LLC

Thank you.

Mike Mack

Thank you.

Operator

Thank you. Your last question comes from the line of Tony Jones of Redburn. Please ask your question.

Tony Jones – Redburn Partners LLP

Good morning Mike, good morning John. I've got a couple left. Hopefully, they are fairly simple. Firstly, Crop Protection pricing, can you please split out the price increase X glyphosate? And then I've got a couple of questions also on the bridge. Firstly, growth investments in this half were 110 million, but that looks like a slight acceleration when I look at the bridge for 2012 on a full-year basis, where the full year was 170. So is this sort of peak of growth investment? So should we expect a similar cost effect to come through over second-half for next year? And then also, on FX, could you just help me understand a little bit what's going on with that because I didn't really understand where the plus $47 million came from in this half? Or more importantly, maybe the question should be, should that get better as a further boost to the second half? And then with hedges expiring, going into 2014, how should we think about emerging market currency moves?

Mike Mack

Thanks, Tony. I think on your first question about pricing, if you look at slide 9 that John presented just a few minutes ago, the pricing is clear there at 198 for the first half. And we wanted to direct you to the glyphosate piece, which is at 70, so the math is straightforward enough. Growth investments, Tony, is something that each and every year we pull out to give you some sense for the things that we think are really exciting to new money typically associated with launching new products, and that has a way of connecting up our technology and our pipeline with new revenues. But John, on the growth investments this year versus last year, I mean, it's a sense for what people can expect. Is this unusual?

John Ramsay

I don't think so. I think it's just the way things have fallen. We're expecting around $200 million for the full year this year, and we said when we launched the ICS strategy, there would be, certainly for a few years, an acceleration in growth investments, and that's where we are. We're right in the middle of that. It wouldn't necessarily be going on at this level forever, but we are putting accelerated investments in, so 200 for the full year. I think your final question, Tony, was on the Forex. I'm not entirely sure where your problem is. We've got about $40 million or $50 million Forex gain in the half. But this does follow, if you can recall, a couple of years of considerable Forex losses. So we're getting a bit back on, largely, the Swiss franc again, I think, if you look at the components of it, in terms of the way in which that has weakened relative to the periods under which we were experiencing in 2011 going into 2012. For the full year, I would expect this to be roughly double the half-year amount. And going into 2014, it's very, very early. I wouldn't, you know, I'm very reluctant at all times to give some predictions about currency. But at this stage, I'd see 2014 being broadly neutral with the full year 2013. But it will depend on rate development and different directions between now and the end of the year.

Tony Jones – Redburn Partners LLP

All right, thank you very much John.

Mike Mack

Thank you, Tony. And ladies and gentlemen, thank you for joining the call. Of course, if you have any further questions, please call Jennifer Gough or Lars Oestergaard in Investor Relations. And with that, we'd like to conclude the session and wish you a good third quarter, and look forward to talking to you now in a few months. Thank you.

Operator

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

Syngenta Crop Protection AG
Corporate Affairs

PO Box
CH-4002 Basel
Switzerland
www.syngenta.com