Half Year 2015 Results TRANSCRIPT

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Corporate participants

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Mike Mack

Syngenta – Chief Executive Officer

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Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Syngenta 2015 first half results. At this time, all participant lines 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'll need to press star one on your telephone. I must advise you that today's call is being recorded on Thursday, July 23, 2015 and I would now like to hand the conference over to your speaker today, Jennifer Gough. Please go ahead madam.

Jennifer Gough

Good morning and welcome to the call. Today's presentation will be given by Mike Mack, CEO and John Ramsay, CFO. The slides that accompany the presentation are available on our website. Please note the safe harbor statement on slide 2. The presentation contains forward-looking statements which are subject to risks and uncertainties that could cause actual results to differ materially from these statements. We refer you to Syngenta's publicly available filings to the US SEC for details about these and other risks and uncertainties. And let me now hand you over to Mike who will begin the presentation on slide number 4.

Mike Mack

Thank you Jennifer and good morning ladies and gentlemen. Our presentation today will be in two parts. Firstly, we will take you through the results of the first-half. We will then give you a broader strategic outlook focusing on the key drivers for our company over the next three years and the longer term.

Starting then with the results on slide 4. In a context of low crop prices and currency volatility, our first half integrated sales were up three percent at constant exchange rates. This reflects our successful management of the currency challenge, especially in the CIS, where we entirely offset exchange rate movements through price increases. We were therefore able to limit the impact on EBITDA and indeed to increase EBITDA margin by 140 basis points. The first delivery of savings from our Accelerating Operational Leverage program made an important contribution to the margin evolution, and our full year target is firmly on track. This is just one aspect though of our focus on profitability which I will later cover in more detail.

Please turn to the update by region now on slide 5, starting with North America, where sales were 4 percent lower excluding the impact of glyphosate. In the US, farm incomes are at their lowest level in 5 years, while in Canada the business has been affected by channel destocking and drought. Although North American corn acres were again lower, we saw an uptick in our corn seed business in the second quarter due to higher licensing income. On our last call, we spoke of our intention to maximize the second quarter opportunity for selective herbicides, and I'm very pleased to report that we did see good growth in this business. This testifies to the strength of our portfolio, particularly in the management of weed resistance to glyphosate. An important contribution came from the launch in April of our next corn herbicide blockbuster, ACURON, and this will sustain our leadership in this area in the years to come.

In Europe, Africa and the Middle East growth momentum continued into the second quarter driven largely by the CIS price increases. These had some impact on volume, notably for seeds, but volumes did increase in many other territories. In particular we saw broad based growth in fungicides, with a significant contribution from the new SDHI SEGURIS.

Reported sales in Latin America were affected by two key factors: an increase due to a change in contractual sales terms for crop protection products in Brazil, and a decrease due to the reduction in glyphosate. Net of these factors, sales were 2 percent lower, reflecting reduced disease and insect pressure and our control of credit in an uncertain economic environment.

Finally, in Asia Pacific, sales were slightly lower, with reduced rice acreage in Thailand and the regulatory phase-out of paraquat in China. This was largely offset by strong expansion in South Asia, driven by new product launches.

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

John Ramsay

Thank you Mike. Let me take you through the key points starting on slide 7.

Reported sales were down 10 percent at 7.6 billion dollars. At constant exchange rates, integrated sales were up 3 percent, comprised of 6 percent positive price and 3 percent lower volume. Excluding the impact of deliberate reduction of glyphosate volumes, integrated sales were up 6 percent.

Significant adverse currency movements in the first half reduced sales by more than 1 billion dollars; and for the full year I would expect the total impact to be around 1.6 billion dollars. Despite this I am very pleased to say that the impact on earnings has been well managed. And I shall come back to currencies.

EBITDA was 5 percent lower at 2.0 billion dollars with a reported margin up 140 basis points to 26.2 percent. At constant exchange rates the margin was up by more than 400 basis points. This was largely due to our determined effort, and success, in implementing significant price increases in the CIS to offset currency depreciation.

Net income, at 1.2 billion dollars, was 12 percent lower.

Earnings per Share, stated before restructuring and impairment, were 6 percent lower at 14 dollars and 70 cents.

And lastly, free cash flow delivery, in line with prior year but on lower absolute EBITDA, reflects our continuing focus on working capital management.

Please turn to slide 8 for a review of our sales progression.

Price contributed 508 million dollars overall. This figure includes the contributions to offset currency depreciation in the CIS as well as lower prices in glyphosate. The underlying price increase for the first half, excluding these factors, was close to 1 percent.

The biggest impacts on volume came from CIS and from the reduction in solo-glyphosate, which together were around 3 percent. Other volume impacts were overall up around 0.5 percent including the change in contractual terms in Brazil.

Lawn and Garden sales were marginally lower in the first half.

And the negative impact of currency on the top line was 1.1 billion dollars.

Please turn now to EBITDA on slide 9.

In the first half the combined contribution from price, volume and mix was 437 million dollars. Implementation of significant price increases to offset currency depreciation was the main driver, especially in the CIS.

This reporting period marks the first contribution from our Accelerating Operational Leverage program. The total savings for the period were just over 100 million dollars and I can confirm we are well on track for full year delivery of 265 million dollars. And I will say more about AOL later.

The COGS variance came largely from Seeds with a small contribution from a lower oil price.

Cost inflation of 85 million dollars came mainly from emerging markets, and represents an increase of just over 3 percent on the total cost base including fixed production costs.

The total adverse currency impact on EBITDA was 563 million dollars. Excluding CIS, the adverse impact in the first half was around 100 million dollars.

You can see the significant impact of currency on the margin which was 29.2 percent at constant currency. I am also very pleased with the reported margin development, up 140 basis points to 26.2 percent, reflecting the benefits of our efficiency program, in what has been a tough operating environment.

Please turn to slide 10.

On the next two slides I will take you through the evolution of sales and profitability across the 4 regions. And currency is a significant feature of the reported margin evolution with adverse impact in all regions except Latin America.

After a strong start to the year, Europe, Africa and the Middle East continued with good growth in the second quarter at constant currency. Overall volume in crop protection was up in the first half despite the impact of lower crop prices and generally dry weather.

The Seedcare business performed strongly with good volume growth in CIS as well as Central Europe.

Seeds volumes were lower owing to corn acreage reduction and in particular as a result of significant price increases in CIS, causing growers to opt for locally produced seeds.

The North American margin reflected increased trait royalty income received through our licensing business, Greenleaf Genetics – and lower glyphosate sales.

Strong growth in the selective herbicides franchise was underpinned by the ACURON launch which I will cover in more detail later.

Now on slide 11.

As a reminder, the first half margin in Latin America is not representative of the full year because it is low season.

In the first half, contractual sales terms for Crop Protection products in Brazil were changed to reduce the flexibility of distributors to return products. And this simplifies operations while maintaining tight control on customer credit – but particularly - enabling our sales force to spend more time with the customer. Consequently sales to distributors are now recognized on delivery instead of when sold on to the grower, with a second quarter favorable sales impact of around 190 million dollars.

The reduction in glyphosate had a 107 million dollar adverse impact on sales but benefitted margins.

Adjusted for these two impacts, underlying sales were down 2 percent, reflecting low insect pest pressure as well as reduced corn acreage.

In Asia Pacific, sales of Gramoxone were phased out in China. And being a lower margin product this was accretive to margins.

New product introductions with higher margins continued in the region, contributing in particular to a strong performance in South Asia.

And please turn to slide 12 for a review of Lawn and Garden.

We have over the past years focused on business quality and undertaken strategic range rationalization of lower margin businesses. This is clearly evident not only in the sales development, but also in the business quality evidenced by a significant margin increase.

Our leading chemical portfolio is now leveraged through a comprehensive Professional Products offer and this is further complemented by an industry leading Flowers seeds platform.

With the track record of margin improvement, I am confident that the full year EBITDA margin target of 20 percent in 2015 will be met.

Please turn now to slide 13.

Crop protection sales were up 4 percent driven mainly by price. CIS price increases contributed significantly across all product lines.

Selective herbicides increased 14 percent, with strong growth in Europe and Latin America. Sales on corn in North America also grew well, with the herbicide franchise now further strengthened by the launch of ACURON. This offset lower sales in Canada as a result of dry weather. Sales in Asia Pacific were also lower.

Non-selective herbicides were 31 percent lower mainly as a result of reduced TOUCHDOWN volumes. And for the full year, I expect sales of just over 500 million dollars, down from almost 800 million dollars in 2014. Elsewhere, the phase out of GRAMOXONE in China, already mentioned, also lowered sales.

Fungicides were up 13 percent showing broad based growth across the portfolio.

In insecticides, growth of 2 percent was driven by Asia Pacific with sales increases in all territories supported by new product introductions in China and South Asia. DURIVO continued to grow in all regions except Latin America where low pest pressure adversely affected sales.

Seed care sales were 4 percent lower mainly as a result of high channel inventory in the Canadian cereals market. And this more than offset good performances in Central and Eastern Europe as well as in Asia Pacific.

At constant currency we have grown sales by 7 percent compound since 2010, while implementing a deliberate volume reduction in solo glyphosate.

Slide 14 shows the sales of new products, which grew 49 percent in the first half.

This figure is indicative of the strength of our innovation and these products have considerable further potential with 2.7 billion dollars in peak sales. Mike will tell you more about that in his presentation.

SEGURIS advanced strongly in the first half, more than tripling sales in emerging markets overall, led in particular by China, Africa and the Middle East.

VIBRANCE seed treatment sales demonstrated broad based growth with the exception of Canada where the channel destocked.

CLARIVA, our biological innovation for cyst nematode control, already launched on soybeans, was extended via a pilot offer for sugar beet in the US.

In Brazil, we continue to see strong momentum for our new SDHI fungicide ELATUS; and just last week the EPA opened the public comment period for SOLATENOL. Due to end on 15 August, this marks a significant milestone toward achieving full registration in the US.

FORTENZA is our new insecticide seed treatment. Having already launched successfully in Argentina and Canada, an introduction in China is planned in the third quarter.

With the launch in the second quarter of ACURON, first sales of the product were generated, already contributing meaningfully to the overall result.

And please turn slide 15 for a closer look at ACURON.

It is not often the industry, let alone a company, launches two blockbusters in successive years as we have with ELATUS last year and now with ACURON.

ACURON is our breakthrough new herbicide and the chart shows that in more than 150 university trials, ACURON easily outperformed the leading competitor solutions. By combining four active ingredients with three different modes of action, ACURON is now helping growers manage major glyphosate resistant weeds such as ragweed. Its launch complements our current Early Season Weed Management offer, which combines traits and herbicides to combat yield loss

We have seen tremendous grower interest and demand for the product is high. For the full year I would anticipate total sales of more than 100 million dollars.

Please turn to Seeds on slide 16.

In the first half seeds sales were up 1 percent.

Corn and soybean sales were 6 percent lower with reduced corn acreage in the Americas. In the US, this was partly offset by higher trait royalty income in the second quarter. Planted areas were also lower in Europe but the impact on volume was offset by significant price increases in the CIS.

Diverse field crops sales were 14 percent higher. Sunflower sales increased significantly in Europe, the most important region, reflecting substantial price increases in the CIS. These price increases had an adverse impact on volume as high value hybrids faced competition from locally produced seeds. Sugar beet sales were lower as oversupply in the sugar market led to significant acreage shifts in Europe.

And finally Vegetables sales were unchanged with solid sales growth in Europe, and lower volumes of sweetcorn in the US due to high processor inventory. Pricing was also robust in all regions showing the ability to capture value for high quality hybrids.

So now to currencies on slide 17.

The chart shows currency movements versus the US dollar since 2013. For 2015 the chart is based on monthly data, and the increased currency volatility is evident in the first quarter with a relative settling in the second.

Overall I am pleased that in the first half we successfully offset around 75 percent of total emerging market currency depreciation, including full recovery in the CIS, through determined implementation of price increases.

In the case of the Euro, Swiss Franc and Pound Sterling movements, EBITDA is largely protected through hedged positions.

On the basis of current exchange rates I maintain my earlier projection for a full year currency headwind of around 130 million dollars, excluding the CIS, with around 100 million dollars during the first half.

Slide 18 gives you the bridge from operating income to earnings per share.

Operating income was 3 percent lower in the first half.

Net financial expense at 101 million dollars was in line with prior year despite higher currency volatility associated with emerging markets.

The tax rate, at 17 percent, was up 2 percentage points from the same period last year. Although an increase from the recent past – this remains a highly competitive tax rate and underscores the advantages of being based in Switzerland.

Restructuring costs for the half year were higher at 134 million dollars, after tax, and the benefits of the AOL program are now coming through to the bottom line.

Earnings per share were 6 percent lower at 14 dollars and 70 cents.

Free cash flow now on slide 19.

The seasonality of our business means that we always experience significant working capital outflow in the first half. And this is what underlies the 1.5 billion dollar outflow you see on the chart. Free cash flow generation occurs in the second half as receivables are collected.

The box in the top right shows the cash outflow from working capital having reduced by 156 million dollars year on year. And this reflects our continued focus on inventory reduction, particularly in crop protection; as well as ongoing tight control on receivables in order to manage credit risk, especially in Latin America.

Capital expenditure, as planned, totaled 240 million dollars in the first half. And for the full year, including expenditure on intangibles, I would expect around 640 million dollars.

Cash outflow for restructuring at 67 million dollars, net of disposal proceeds, was higher than prior year as AOL initiatives were implemented.

Financing, tax and other amounted to 336 million dollars.

The negative free cash flow before acquisitions of 113 million dollars was in line with prior year. And for the full year I expect free cash flow again to be substantial.

Before handing you back to Mike let me conclude with the outlook on slide 20.

As the chart shows, the contribution of the second half to full year earnings has increased historically, due in particular to the growing importance of Latin America. Significant non-repeating events in 2013 caused a temporary break in the trend.

In 2015, AOL momentum will increase in the second half.

Currency headwinds were concentrated in the first half, as I have already explained, and I therefore expect only a slight adverse impact in the second half.

The 50 million dollar positive impact of lower oil prices on COGS in 2015 will also be weighted to the second half due to the time lag of around 12 months. For 2016 I now expect the oil price related benefit on COGS to be around 125 million dollars.

The combined benefit to second half earnings of these three components will more than offset the non-recurrence of the pension benefit registered in 2014.

And consequently, I would expect the proportion of full year EBITDA earned in the second half to once again increase in 2015.

We therefore maintain our previously stated full year guidance – that is – full year sales at constant exchange rates and reported EBITDA around the 2014 level, with substantial free cash flow generation.

With that, let me hand you back to Mike for the strategic outlook.

Mike Mack

Thanks, turn now to slide 22 please. In this part of the presentation we will cover six key themes, starting with our strong financial outlook in the context of a large and growing agricultural market increasingly driven by Crop Protection. We will show you how Syngenta is uniquely positioned through our broad portfolio and geographic reach, with new product launches driving market share gains. These will be sustained by our longer term Crop Protection pipeline and by our leading innovation in Seeds. And finally we will demonstrate the significant scope for margin expansion through improvements in Seeds accompanied by efficiency savings.

Slide 23 shows you the key proof points for each of the six themes which I will cover as we go through the presentation, starting with the strong financial outlook on slide 24.

Our longer term sales objective of $25 billion remains intact, driven by the ramp-up of new crop protection products including blockbuster launches. In the shorter term, we are highly confident in our ability to achieve the targeted EBITDA margin of 24 to 26 percent by 2018. The key drivers for this are seeds margin improvement, to which higher corn licensing income will contribute, and cost savings from the Accelerating Operational Leverage program.

Taken together, growth accompanied by higher profitability will result in EBITDA in the range of $6 to 6.5 billion post 2020, more than double last year's level. This will be reflected in strong free cash flow generation, maintaining our track record of free cash flow in excess of 40 percent of EBITDA on average.

Turn now please to the market outlook on slide 25. The green bubbles show you the historical compound annual growth rates for crop protection, leading to a market now valued at over 63 billion dollars. The outlook is robust, driven by innovation and resistance management in the developed markets, and by adoption and intensification in the emerging ones.

The Seeds market has grown rapidly mainly due to the expansion of the GM market, for which growth rates are shown in the blue bubbles. The rate of growth in GM is now slowing, and this will affect overall growth in the seeds market.

Both Crop Protection and Seeds have been affected by the recent record levels of production which have temporarily driven down crop prices. History has repeatedly shown though that the conditions leading to oversupply simply do not last. With continuing growth in grain demand, the medium and long term growth prospects remain strong.

And slide 26 illustrates that point on slowing growth in GM, with penetration reaching saturation levels in the Americas for all the relevant crops. The same is true for the important Indian cotton market. In other major markets such as the EU and Japan, use of the technology is restricted at best, with little sign of change on the horizon.

Turning now to our geographic reach on slide 27. The chart top left shows you the global distribution of agricultural land, with two thirds located in the emerging markets. In these markets, yields lag well behind those of developed markets, as shown in the chart on the right. Syngenta though is best placed to meet this opportunity, with over 50 percent of our sales in emerging markets and a strong track record of growth. This growth was originally led by crop protection but has latterly been augmented through our seeds platform with, for example, growth in Corn in Asia Pacific and Sunflower in Eastern Europe. Our broad portfolio enables us to provide tailored offers by crop, adapted for the needs of growers in each of these regions.

Slide 28 presents our track record in innovation which has been sustained through lifecycle management as well as new product launches.

Between 2008 and 2014 we launched, on average, one new active ingredient a year with a focus on blockbuster opportunities. At the same time, our excellence in formulation chemistry and lifecycle management enabled us to launch more than 600 new products globally. This has been an important driver in the market share gain in Crop Protection achieved over the last 10 years.

Slide 29 shows the new active ingredients launched over the last five years. Together these products have peak sales potential of over $2.7 billion, compared with the sales of $640 million achieved in 2014 – so they still have significant growth ahead of them. The success of the ACURON launch and its positive performance evaluations has enabled us to revise up its peak sales potential now to over $500 million.

Overall, the pace of new active ingredient launches means that the share of patent protected sales in our portfolio will increase from 30 percent in 2013 to around 40 percent this year – a remarkably rapid progression that encapsulates the speed and scale of our innovation.

Slide 30 now. The upturn in innovation is expected to continue well into the next decade. Today we've brought forward the announcement of our new Crop Protection pipeline which we'd planned to show you for the first time at our R&D Day in September. You'll hear about it in more detail then, but it is important now to realize its headline worth, with combined peak sales potential of over $3.6 billion.

The top half of the slide shows you four new blockbusters each with peak sales potential of over $500 million. The largest of these is the new fungicide for cereals, soybean, vegetables and specialty crops which is now in Stage 3 with launch scheduled for 2016 or 2017.

In addition the lower half of the slide shows products which, while they may not technically be blockbusters, will be very prevalent in relation to their market segment. The first of these is ORONDIS, another new fungicide scheduled for launch next year.

Overall our new product launches and this pipeline guarantee that we will not just maintain but will further strengthen our crop protection leadership over the coming years. And with new products commanding above average profitability, the growth in these products will obviously benefit the gross margin.

Turning now to Seeds, starting with corn on slide 31. We are one of only two companies to have developed a complete independent trait platform including comprehensive insect control and Refuge-in-a-bag. We have already demonstrated our ability to license our technology to other seeds majors and will continue to seek licensing opportunities. We have also access to independent seed companies through our Greenleaf Genetics subsidiary; and of course we continue to market our traits through our branded seeds business. With Chinese approval now opening the way for an expansion of VIPTERA, we expect corn trait revenue and royalty income to more than double between 2015 and 2020.

Slide 32 now reminds you of our HYVIDO hybrid barley offer, combining seeds with an optimized crop protection protocol. Seeds sales will have reached $100 million in the first five years and have demonstrated strong pull-through of crop protection products. The peak sales potential of this integrated offer is $500 million, and a key proof point on how the integrated strategy is working in the more traditional developed markets.

Moreover, our success in barley means that we are well placed to capture the future opportunity for technification in cereals. This means that our unique capability is now set to drive yields of wheat as well as barley.

And slide 33. Wheat is the largest crop in the world and hybridization will revolutionize the way it is grown without the need for GM technology, opening up a huge market opportunity around the world. We have the strongest germplasm in the industry and are developing hybrids adapted to the highest value areas. We expect to launch the first products at the end of this decade with a rapid ramp up in sales from 2025 onwards. Peak sales potential of over $3 billion is achievable within 20 years.

Cereals are currently an area of investment for us, with returns to come some years from now. While we continue to pursue this major opportunity, we will simultaneously be working to improve the profitability of the rest of the Seeds portfolio, as John will describe you in a moment.

The innovation across both Seeds and Crop Protection is underpinning our integrated strategy, now universally recognized as the model for our industry.

Slide 34 shows you the progress we have made after four years of integration and what we have learnt. The left hand chart is the same as the one we presented this time last year. It shows the evolution of crop protection and seeds market share between 2010 and 2013, with emerging territories shown in blue and developed markets in green. It is clear that the early successes of the strategy were concentrated in the emerging territories, with protocols such as GROMORE ideally positioned to drive the modernization of rice farming. Developed markets have been more challenging though, with growers who are already tech-savvy and established distribution channels.

However, as you could see from the chart on the right, we are making progress. In 2014, we gained share in both crop protection and seeds in five of the developed markets. We have learned that the technology hooks, in the form of innovative products, are of key importance in securing uptake of our integrated offers. That is why the innovation pipeline that I showed you underpins our confidence in achieving further share gain in the coming years.

I am now handing you back to John for some more detail on this and for an overview of our profitability objectives.

John Ramsay

Thank you Mike.

Slide 36.

We showed you a version of this chart in February. And today I would like to explain how we are going to address the differing levels of profitability in Seeds in order to achieve a gross margin of over 50 percent for the business in 2018.

Both Vegetables and the bulk of Diverse Field Crops already operate above this level of profitability, and growth momentum in both areas will have a positive impact.

However, the greatest contribution to margin improvement will come from Corn, in both North America and rest of the world, and from Soybean and Cereals. The next two slides outline the drivers for this.

Starting with Corn on slide 37.

Profitability in North America is already high thanks to our proprietary trait platform. As Mike showed you earlier, we plan to further leverage our traits through licensing. Our branded business will benefit from our focus on the seed advisor channel to drive an increased footprint. At the same time, we will realize the disruptive value of ENOGEN technology which enables us to generate additional seeds sales – and also pull through crop protection chemistry.

Our traits will also play an important role in improving corn profitability in the rest of the world. Viptera is the Lepidoptera trait without resistance issues in Latin America, and this is recognized by our large number of licensees. In Asia Pacific, we are leading the expansion of traits in Vietnam. And finally, in order to improve our cost structure for corn seed, we will optimize production locations in Europe closer to end markets.

Turning to soybean and cereals on slide 38.

Firstly soybean.

The current level of profitability is inadequate and we are determined to improve returns.

In Latin America, with our new business partner model, we have created an entirely new model which will improve profitability.

In the past, we would license our genetics to multipliers in exchange for a royalty. A multiplier grows seeds and then sells the seeds under their own brand. We also operated a branded model which managed the entire value chain and was more profitable, but was challenging to scale up.

We have therefore, now created our Integrated Business Partner model. And under this model our partners multiply our seeds and sell them to their customers, but with a Syngenta brand allowing premium pricing.

Our partners are also excited about this as it has enabled them better access to high quality genetics, underpinning an increase in operations and profitability.

We will also see a mix benefit from sales of INTACTA and from the ramp-up of our integrated high yield soybean protocol.

We will continue to invest in our Cereals business, and at the same time achieve higher profitability. We continue to ramp up HYVIDO with the launch of new improved hybrids at a lower cost of production. And our cost structure will also benefit from the outsourcing of hybrid supply.

And please turn to slide 39, for an explanation of our Seeds portfolio management.

Our seeds business can be divided into three areas of strategic focus: Driving profitability improvement; maximizing high margin businesses; and long term industry leading investments.

The portfolio management tools we have available are applicable across all three areas.

All businesses are screened for the potential for AOL efficiency savings. For example, our field crops business is currently implementing a common Sales and Operational Planning, end-to-end process to help enhance the customer experience.

Seeds businesses demonstrating the potential for pull through of chemical sales are prioritized to underpin our integrated strategy. A notable example would be our HYVIDO hybrid barley business, as well as the ongoing investment into hybrid wheat.

Where necessary we will also make changes to the business model – as we have done with Latin American soybean.

If we are not able to achieve, on a timely basis, the targeted level of profitability including these tools, we are prepared to explore JV and divestment options – particularly if those options enable us to increase the strategic value inherent in the crops sooner than we could otherwise do.

Please turn to slide 40.

Seeds margin improvement is part of a company-wide Accelerating Operational Leverage program which is well under way and, as you can see from the first half sales results, is already yielding substantial benefits.

And today I would like to provide a little more insight into the flexibility we have under the program.

At the launch of AOL in early 2014 the majority of the contribution was expected to be generated by leverage. As the program stands today, the EBITDA margin contribution of 5 percentage points is comprised of around 60 percent cost savings and 40 percent leverage. Looking ahead, depending on market conditions, we have within the program the flexibility to refine this ratio in order to continue to target the margin improvement.

With the first half savings delivered we are firmly on track to meet the full year target of 265 million dollars in 2015; and as I look ahead to 2016, planned initiatives are already well advanced.

Let me take you through our EBITDA margin bridge to 2018 on slide 41.

This slide sets out how we plan to achieve our 2018 margin target.

Starting on the left with the 2014 actual EBITDA margin at 2015 exchange rates to provide a baseline. My assumption on currencies beyond 2015 is for any movement to be broadly neutral.

The overall sales growth assumption over the period is around 4 percent compound average to 2018; substantially below the historic market growth average. On this basis, volume leverage would contribute 2 percentage points to margin.

The price contribution to margin of 3 percentage points reflects an underlying assumption of around 1 percent price increase per year.

I have already discussed the AOL contribution to margin of 5 percentage points.

The 1 percentage point improvement in COGS is largely realized from the impact of lower oil prices on raw materials and this will materialize mainly in 2016. Beyond this timeframe my assumption is neutral on raw materials.

Cost inflation will remain an ongoing feature of our business and is largely associated with a significant presence in emerging markets. The price increases I just mentioned cover inflation in full on a dollar for dollar basis.

The negative contribution in Other is comprised mainly of non-repeating 2014 items, the largest of which is the pension scheme benefit realized in the second half of 2014.

The box on the top right shows you the key ratio evolution to 2018 and from this you can see the biggest contribution will come from gross profit.

As I now stand back and look at our 2015 results we are already seeing clear benefits from the uptick in innovation and the ramp up of new product launches.

And profitability is being improved through AOL, as we have in the first half results, seen the benefits start to come through. I also take confidence in the extent to which company resources – across the group – are already focused on profitability improvement.

It is my belief we are now well on track for delivery of our margin target of 24 to 26 percent in 2018.

And let me now hand you back to Mike.

Mike Mack

Thank you John. Let me conclude by summarizing why we think the market underestimates Syngenta's prospects, both in terms of growth and profitability on slide 43.

Syngenta is the undisputed world leader in a Crop Protection market that is growing faster than anyone would have believed ten years ago. In seeds, while we are number three, we are increasingly realizing value from our trait technology while using our seeds presence to pull through more chemistry.

We have four years' experience adapting integrated go-to-market models at a territory level and clear evidence that our strategy is working. It has enhanced our already-leading emerging market presence and is now gaining traction in the developed markets as well.

In a technology-driven industry no other company can boast innovation potential like ours. With two blockbuster launches in the space of two years, and 6 billion dollars in peak sales potential for our new and pipeline products, we expect to gain share while maintaining a high level of profitability in crop protection. At the same time, as John just said, we are taking determined actions to improve our profitability in seeds.

As a result we are exceptionally positioned to deliver leading innovation and high returns in an industry that has decades of growth potential ahead of it.

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

Questions and Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel this request, please press the hash key. Once again, that's star one to ask a question.

Your first question comes from the line of Tony Jones of Redburn. Please go ahead.

Tony Jones – Redburn

Good morning, everybody. Tony Jones, Redburn, in London. Our thanks for the additional detail and the presentation, it's really useful.

I've got three questions. So firstly, on the EBITDA bridge, could you be specific about what the contribution was from the change in revenue recognition in South America? We've got the sales but I wasn't sure what margins to apply.

And as it relates to that, could you also highlight if there was any year-on-year gain in here that came from licensing income and whether that was just GreenLeaf or from some other factor?

And then also on Capex, the PPE Capex was I think $190 million, so quite a bit low year-over-year, lower than we were modelling. But I thought previous indications had been that we should expect an absolute increase this year and then another step-up next year. Is this just phasing or should we now modelling much more prudent Capex allocation? Thank you.

John Ramsay

Thanks, Tony. Just on Capex, we typically – we've got variations year-over-year but I think this year is indicative of, you know, the size of the Capex demand. And we work on the basis of around 4-1/2 percent of sales on a planning basis and I still see that as a good guide for the future.

Going to your first question in terms of the EBITDA bridge and the contribution coming from this change in invoicing in Brazil, well, actually, the change in invoice in terms of Brazil was dilutive to the margin. This would come through in mix.

Ironically, it included quite a lot of glyphosate, as we're exiting glyphosate, of course, we're still selling some, but the absolute impact on margin was below the group average, but they would come through the bridge in mix.

Licensing, yet, again, is within the bridge, but it's again going to come through – it's coming through in bridge in the mix.

Can I just say a few words about licensing because I think it's important. Because I think now that we've got the VIPTERA registration now, we are expecting to see a significant increase in licensing income for our traits, trait licensing income as we go forward. And we could see this expanding drop to just under about $500 million by 2020 and we'll start to ramp up in 2016, but that would come through largely in the mix line

Tony Jones – Redburn

OK. So just a quick follow-up and if that's OK, so gains to EBITDA were both mix – or mainly mix from South America and then licensing income, of that 437, could you give us a rough indication of what proportion that represented? Thank you.

John Ramsay

Overall, in the – in the half, you can attribute probably about 50 basis points of margin improvement to mix overall.

Tony Jones – Redburn

Thank you.

Mike Mack

Thank you, Tony. Operator?

Operator

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

Jeremy Redenius – Bernstein

Hi, good morning. It's Jeremy Redenius. Thanks for taking the questions. I guess, firstly, with the change of the timing of the revenue recognition in Latin America, can you remind us of the – how the timing works in the other regions please?

And then secondly, when looking at your forward-looking EBITDA bridge to 2018, the price increases is up 3 percent. Can you talk about how you're thinking about implementing those please?

And actually, I'm kind of wondering what the price increases, if that's list price increasing, are we talking about product mix changes that you phase out like glyphosate, et cetera? Thanks.

John Ramsay

Jeremy, thanks for the questions. Well, firstly on price, this is list pricing. This is increased revenue coming through to the bottom-line and represents somewhere around about 1 percent price increase per annum which is actually below what we've been able to achieve in the last – the last few years, but that's a conservative assumption on pricing.

But revenue recognition, let's just maybe just spend a few moments on this in terms of why this has changed. Basically we previously have been operating what we call the consumption model which requires us basically to get returns from all the distributors around the whole of Brazil in terms of the inventories that were held at those distribution locations.

That's the model we have been operating. And why we put that in place some years ago is to give us absolute control over the levels of distributor inventories. For many of you who have been studying Brazil in this industry for some years, you will know that this has always been a problem in Brazil with the distributors over committing themselves and building up far too high levels of inventory. And this is our method of control.

That hasn't changed. That's the fundamental point. That has not changed. We still get those returns from the distributors. We reward the distributors on the basis of the true sales of consumption into the market, we reward our sales force on that basis.

The problem was is because of the sheer magnitude and the sheer complexity and the high volume of product moving at the December yearend, it was becoming a problem for our revenue cut-off opposite our audit of the accounts.

So at the audit committee in February of 2015, we agreed that we'd look at ways of getting a better handle on this.

And we basically negotiated with distributors, cut the ability of them to make returns and then move to recording sales on invoicing, and that's what we basically do in virtually every other markets in the world.

The important point about it is we have not changed the consumption model which is an extremely good model for being able to control in market inventories and being able to properly reward distributors and their sales force on true consumption.

Mike Mack

Operator?

Operator

Your next question comes from the line of Sophie Jourdier of Liberum. Please go ahead.

Sophie Jourdier - Liberum

Good morning. Thank you. I've got three questions as well please. First of all, just on seed costs which I think you mentioned was the reason for the rising cost of goods sold in the first half. Could you just explain that? I thought we were expecting seed cost generally to reduce following the higher cost resource about a couple of years ago. That's the first question.

The second question, I just wondered whether you could just explain in a little bit more detail the slide on – the diagram on slide 31 just talking about the corn traits revenue and royalty income, sales increased towards about that $1 billion level. Could you just explain what exactly the different bars are and how that relates to the 500 million trading income we just talked about? I thought there were about 170 million at the moment. So just a bit more detail around what that is actually showing us at that chart?

And the third question, and sorry for bringing up the Monsanto takeover offer, but, you know, I appreciate that you've stated that the valuation they've offered is too low and the antitrust issues. But I wonder whether you could just explain why you haven't been prepared to do basic due diligence just given Monsanto's comments that they could be willing to raise the offer price under that scenario? Thanks.

Mike Mack

Good morning, Sophie, it's Mike. I just take the Monsanto question quickly. I mean, look, if you're – if we're not proceeding with this proposal further, I don't see why, we don't – the board don't see whether there's any basis for conducting any due diligence and we were very robust with our answer back at the end of April when we first made it, and then again, in June.

So no due diligence, no to the deal certainty, no to the price, no to the execution risk. It's all been said within three months and nothing has really changed.

John, on the corn trait revenue and the seed cost.

John Ramsay

Yes. But just, Sophie, on the seed cost, the chart that you referred to, it's a 20 million benefit, so it is actually lower seed cost. Our color coding is whenever you see green, it's a good point. When you see gray, it's usually bad.

Sophie Jourdier - Liberum

But – yes, but I thought you've mentioned that the oil price in your comments that the oil price was the benefit and that there were some – maybe I misheard that.

John Ramsay

I'm sorry, sorry, no. What I'm saying is the – of the 20 million, the majority of it is seed cost, and there is, you're right to say, I did say there's a small amount coming from oil. But the major contribution from oil this year which is going to be about 50 total for the year, will be in the second half.

Sophie Jourdier – Liberum

OK, thank you very much for that. And then just on the corn traits diagram?

John Ramsay

Yes, on slide 31, if you've got it in front of you, I'll just explain it a little bit better. The fundamental point here is that we are now about to see a ramp up in trait royalty income largely, not exclusively but largely associated with the registration we now have in VIPTERA which enables licensees to proceed.

Now, on this chart, you've got an orange or yellow component. That is the amount of revenue that effectively is in Syngenta branded seed but those are price paid for the trait when the grower buys the seed, and that's the amount of revenue that's in that. We haven't shown that in the past as a separate amount but it's put here just for completeness.

Perhaps the more important thing is the two shades of gray which is licensing income either through our licensing arm or through direct licensing to other seed companies, and that's the light gray and the dark gray.

And as you can see in 2015, you're right to point out that that's relatively small, and I think the number in 2015, don't hold me to this, but it's around 115 million, those two gray bars, your reference to about 170 is the total royalty income. This chart is just referring to trait royalty income.

So the point here is that you see the expansion A, through our revenue generated from our own brands, but also you see the expansion in the revenue that's going to come from licensing income, and it's referring just to trait income.

Sophie Jourdier – Liberum

Great. Thank you very much.

Operator

Thank you. Your next question comes from the line of John Klein of Berenberg. Please go ahead.

John Klein – Berenberg

Yes, hi, good morning. Thank you very much for taking my questions. I've got four short questions.

Firstly, on – you have a slide on portfolio – potential portfolio management of strategic options in seeds where you're talking about divestment or JV options. Can you maybe give us a bit more of an idea what a JV option will also include in North American seeds business?

Secondly, also, on seeds, the sugarcane business isn't mentioned in your presentation. Maybe you can give us an update on where we are with that?

Thirdly, on soybean seeds, how much of the margin uplift that you're expecting in soybean gross margin is actually related to INTACTA sales?

And then fourthly, on corn traits, the 2016 expectations for licensing income, how much of that is upfront payments or milestone payments versus acreage increase? Thank you.

Mike Mack

Good morning, John. Maybe I can start first with the portfolio, the divestments and, you know, whether that would or would not include, I think you said North American corn and soybean.

First of all, I'm not going to go into a place where we're speculating about that. As John said, the tools and various options for improving the profitability profile of these businesses, all of that is open to us.

What you are hearing us say, you know, very clearly is trait income and the productivity of our trait pipeline is coming through and you can see that reflected in the margin of the underlying business in North America.

And as we've been saying for years, these traits are portable where, you know, the source of revenue and income growth in Latin America; we're among the first now to market in Vietnam and the opportunity for this – the corn seed and the traits continues to be good. But – so I wouldn't say anything more about that.

You're asking about sugarcane, yes, it's very much still in the portfolio and on offer. For those of you who joined us in Brazil now over a year ago, you will recall that we've made some investments in the CEEDS technology, C-E-E-D-S. And that's coming along nicely.

The sugar market, of course, characterized by very low prices and it just continues to be a difficult environment there. Syngenta is leading in crop protection. We've got great relationships with those sugarcane or ethanol producers rather and that continues to be an area of investment for us.

John, there were two questions about the pull through of INTACTA revenue on the soybean seeds in Latam.

John Ramsay

Yes, I don’t have the number, John, by head, for the INTACTA component. But the larger components are going to be in terms of revision to the business model but there would be a few percentage points of margin that would be attributable to INTACTA in terms of the assumptions we're making about the market pricing.

So as far as the question on trait revenue is concerned, just going back to the slide that Sophie referred to on slide 31, just to make it clear, this is cash basis, so it does actually include some residual cash and receipts from DuPont in respect to the accounting that we recognized in 2012.

But apart from that, it’s all largely on an acreage volume basis, and the very, very large proportion of it is basically already within written agreements. So the largest part is going to be associated with the third party licensee volume increases.

John Klein – Berenberg

OK. And with the 2016 step-up that we're seeing on direct licenses, it would be mostly attributable to acreage increase.

John Ramsay

For 2016, did you say?

John Klein – Berenberg

Yes.

John Ramsay

I believe so. I believe that's right, yes.

John Klein – Berenberg

OK, thank you very much.

Operator

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

Virginie Boucher-Ferte – Deutsche Bank

Yes, good morning. I've got, yes, two small questions, mainly clarifications. You have a $6 billion to $6-1/2 billion EBITDA target post 2020. Is it fair to assume that the realistic timeframe to hit these targets would be closer to 2025, 2030 assuming a 4 percent sales CAGR? If I'm reading your slide 41 correctly, you've got a 4 percent growth assumption.

And my second question is on SOLATENOL, do you have more visibility on the timing of the SOLATENOL launch in Europe? Should we have it in our numbers for 2016? Thank you.

Mike Mack

Good morning, Virginie. The first on SOLATENOL, it's always a bit tricky to guess the regulators and I wouldn't want to over promise and under deliver that, but we continue to be optimistic that we may be in a position to have a registration in Q1 of next year. And if we have that registration, of course, that would be a 2016 revenue opportunity for us. So again, I don't want to get too far on the hook for that but that is what we're working toward.

And your question about the sales CAGR, I mean, John, you've got that as the underlying assumption for the EBITDA evolution.

John Ramsay

Yes. Yes, thanks Virginie. The slide you're referring to is the one on the bridge on slide 41. This was put together specifically to try and put a bit more, now that we're well underway with our AOL delivery, that we thought we put this together to give a bit more indication of the components to get to the 24 percent to 26 percent.

What we've adopted for the AOL program is a 4 percent sales growth and it's incorporated into this chart. But let me be clear, we are seeing that as a conservative assumption. So I put this chart together specifically on the 24 percent to 26 percent basis to try and provide a little bit more comfort around the headroom that we have.

We still see our longer term planning and our longer term planning is based upon higher growth than 4 percent. But given the fact that we have – you know, we're in a market down period and that the immediacy of trying to get the traction around our AOL program, we are basically setting our internal targets and passing those out to all parts of the – of the business on the basis of not relying on volume growth above 4 percent. But just to re-enforce the point, from a long-term planning basis, we are still working into a higher level.

Virginie Boucher-Ferte – Deutsche Bank

OK. And sorry, just to be clear, you know, when you mentioned that, you know, if the strategy in seeds does not deliver, you will explore JV option and – or divestments. What timeframe do you have in mind? Is it, you know, 2018, or could it be much sooner? Thank you.

John Ramsay

It very much depends on the levels of confidence we can see in our plans. I think we were putting the plans into places. You know, if we start to see doubt either in terms of the ability to access the marketability to get the profitability up, we will start to consider how in fact we realize the strategic value inherent in these crops. So it very much depends on us, and having the confidence in our momentum case in terms of delivery.

Virginie Boucher-Ferte – Deutsche Bank

OK, thank you very much.

Operator

Thank you. Your next question comes from the line of Markus Mayer of Baader. Please go ahead.

Markus Mayer – Baader

The only question, one question. On your net on capital to sales ratio which was 1 percentage point higher year-over-year. If you could give us some insights why this was the case?

John Ramsay

Yes, thank you, Markus. Yes, that's clear. Essentially, we've got different movements in inventory and in receivables. And we are continuing to see efficiency in inventory.

As you may recall last year, we had a very big push on inventory, made significant advance with a significant reduction in the percentage of sales, and that is continuing at a lower level now in terms of the opportunity.

But that's improving in inventory. We're finding receivables are going out, DSOs are going out a bit, largely in Latin America. And I've spoken about this in the past that in Latin America, we are seeing considerable reduction in liquidity, credit availability for growers is now, you know, seriously, seriously constrained, so we're having to watch that very carefully.

We're putting a lot of effort into different financial solutions around barter and securitization and different working capital models with different banks. But the reality is the growers in Latin America are finding it very difficult to get access to credit.

Markus Mayer – Baader

And then another question on this, do we expect that this net capital to sales ratio comes back then to a level we saw on 2014 than maybe in the second part of the year?

John Ramsay

I'd expect us to be overall at profile not dissimilar to the half-year for the full-year, but inventory will continue to show a modest improvement and receivables will continue to show a modest deterioration.

Markus Mayer – Baader

OK. Thanks.

Mike Mack

Operator, the final question now?

Operator

Thank you. Your final question comes from the line of Tony Jones of Redburn. Please go ahead.

Tony Jones – Redburn

Hi. Thanks for taking the follow-up. I just had a question which related to the EBITDA bridge, slide 41 this time. So just to clarify something, on the slide you mentioned leverage twice, so there's a box with 2 percentage point gain from volume leverage.

But then under the AOL box, you've got leverage 2 accounting for 40 percent of the 5 percent expansion. Is that leverage in that box also related to volume leverage or is this something else? Thank you.

John Ramsay

Yes, yes. Not very useful using the same words perhaps, Tony, so that's confusing. But volume leverage was just basically what is going to come through the 4 percent growth in the top-line.

The AOL savings are the incremental leverage we'll get by having the resources fixed opposite continuing growth. So basically, what it means is that specifically within the AOL program, you will have teams doing the same amount, the same level of operating for – they'll manage the increase in activity associated with the same level of resource.

So the different ways in which they are able to manage the – so instead of putting more resource in, they basically hold the resources constant whilst the business is growing. And we're identifying that as over and above the level of leverage that would occur associated just with the – you know, the ongoing volume growth, very specifically targeted within the program but we count that as part of the benefits attributable to those teams.

Tony Jones – Redburn

OK. And just sort of following up from the great assumption then to the 4 percent, is that all volume growth or is there any – is there anything in there from price which is also in the bridge?

John Ramsay

That's the total growth. Of that 4 percent, 1 percent is price coming through in the 3 percentage point improvement and 3 percentage volume coming through in the 2 percentage point improvement.

Tony Jones – Redburn

OK, thank you very much. Thank you

Mike Mack

Thank you. That concludes our presentation today, ladies and gentlemen, and I know if you have further questions, you'll contact Jennifer Gough and Lars Oestergaard in Investor Relations. And I look forward to seeing a number of you at our R&D Day on the third week of September. Thank you for joining the call.

Operator

Thank you, ladies and gentlemen. That concludes our conference for the day. Thank you for participating. You may now disconnect.

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