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29 November 2021

ASX Release – Company Announcement

Nufarm receives Fitch Credit Rating of BB with a Stable Outlook

Nufarm Limited (**ASX: NUF**) advises that Fitch Ratings has assigned a credit rating of BB and a stable outlook. This is the first time that Fitch has assigned a rating to Nufarm.

In the report, Fitch noted the key ratings drivers are Nufarm's top ten market position in terms of overall crop protection and seed products globally, the likelihood of investment in the next few years to expand scale and product range, robust industry fundamentals, limited vertical integration, raw material risks noting Nufarm is seeking to mitigate this risk, moderate product and geographic diversification and improved financial profile.

A copy of the Fitch Ratings report is attached.

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26 NOV 2021

Fitch Assigns First-Time 'BB' Rating to Nufarm; Outlook Stable

Fitch Ratings - Singapore/Sydney - 26 Nov 2021: Fitch Ratings has assigned Australia-based Nufarm Limited a first-time Long-Term Issuer Default Rating (IDR) of 'BB' with a Stable Outlook.

Nufarm is among the ten largest crop-protection chemical companies globally, operating in the post-patent segment where product patents have expired. Nufarm also has a small but fast-growing global commercial seeds business. The industry has high barriers to entry and Nufarm's operations provide adequate geographical diversification. Nufarm's rating also factors in its reliance on external suppliers for a large majority of raw material needs and a product portfolio skewed towards herbicides.

Leverage reduced materially in the financial year ended 30 September 2021 (FY21), driven by higher EBITDA on improved weather conditions, robust prices and cost reduction. Sale of LATAM businesses in 2020 for AUD1.3 billion also helped reduce debt. Free cash flow (FCF) also turned positive in FY21, helped by improved working capital management. We expect Nufarm will maintain leverage in total debt/EBITDA terms at below 3.5x, or near the lower-end of its own target range of 1.5x-2.0x.

Key Rating Drivers

Ninth-Largest Market Share: Nufarm has a top-ten market position in terms of overall crop-protection and seed product sales globally. The company also has a number two position in Australia, the leading position in New Zealand and strong positions in segments such as European cereal herbicides, turf and ornamental crop protection in the US and phenoxy herbicides globally. Nufarm also benefits from the sale of products sourced from Japan's Sumitomo Chemical, the eighth-largest industry player and Nufarm's single-largest shareholder, under a strategic alliance

Growth-Related Spending Likely: Nufarm's scale remains small compared with the industry's leading players, with revenue less than half of those in the top-five positions, although well positioned within the 'BB' category. The ability to provide a comprehensive set of product solutions to farmers with the help of an extensive portfolio is a key competitive advantage, and we think Nufarm is likely to invest in expanding its scale and product range in the next few years through organic as well as inorganic means.

Robust Industry Fundamentals: The industry has high barriers to entry as significant expertise and investment are needed for registrations, sales and distribution, and manufacturing. The market is highly regulated and registrations usually take several years. Crop protection chemicals are characterised by higher R&D intensity, better profitability and lower price volatility than commodity chemicals. Industry players also have pricing power, which lowers risks from foreign-exchange and raw-material cost swings, although there is often lag in cost pass-through.

Limited Vertical Integration: Nufarm has reduced its manufacturing footprint in the past couple of years, and reliance on external purchases has increased. Manufacturers in China contribute a majority of the company's raw material requirements and supply from the country has been affected in the past few years by issues such as a reduced number of suppliers due to stricter enforcement of environmental regulations.

Raw Material Risks: We expect Nufarm's reliance on external suppliers in general, and Chinese supply in particular, to remain in place over the medium term and this presents significant risk of volatility in raw-material availability and cost. The company has sought to mitigate risks with the help of long-term agreements, local procurement teams and established relationships with suppliers.

Moderate Product and Geographical Diversification: Herbicides, whose demand is prone to significant impact from dry weather, contribute two-thirds of Nufarm's revenue. The skew towards herbicides weakens the diversification of the company's portfolio, which includes a variety of insecticide, pesticide and seed-related products.

Nufarm derived 35% of its crop-protection chemical revenue from North America in FY21, 27% from APAC and 25% from Europe. However, its geographical diversification is limited by a lack of presence in LATAM, which is one of the world's largest crop-protection chemical markets, and significant revenue exposure of over 15% to the relatively small Australian market.

Improved Financial Profile: Nufarm's total debt/EBITDA leverage, after Fitch's adjustments, declined to 3.8x in FY21 (FY20: 7.1x) while net debt/EBITDA decreased to 1.8x (FY20: 3.5x). The improvement was mainly driven by a 52% jump in reported underlying EBITDA. The company's FCF was supported by a decline in reported average net working capital/sales ratio to 34% (FY20: around 45%), due to better receivable collections and lower inventory levels.

We expect Nufarm to use a portion of its cash balance for debt reduction and total debt/EBITDA should decline further to 2.8x in FY22. However, leverage could increase to above 3.0x in the next few years due to spending on bolt-on acquisitions

Derivation Summary

Nufarm is rated two notches below crop-protection chemical industry peers UPL Corporation Limited (BBB-/Stable), whose rating is based on the consolidated profile of its parent UPL Limited (UPL), and the Standalone Credit Profile (SCP) of 'bbb-' of Syngenta AG (BBB/Stable), whose rating incorporates a one-notch uplift for parental support. The rating differential between the peers and Nufarm is on account of its weaker business profile.

UPL is the largest company in the post-patent segment of the crop protection market, with revenue more than 2x and EBITDA more than 4x that of Nufarm. UPL's higher margins reflect benefits from better vertical integration, underscored by large manufacturing operations in India where it gains from low costs. UPL's geographical diversification is also better on account of it having operations across most markets, including LATAM, and its product portfolio is more balanced with no category constituting more than 35% of the total.

Syngenta is the industry leader and an innovator, with a large portfolio of patented crop-protection chemicals that result in higher margins compared with Nufarm. Syngenta's better business profile is supported by its significantly larger scale, with revenue more than 5x that of Nufarm, healthy product and geographical diversification, and market leadership across key segments.

Among broader chemical industry peers, Nufarm is rated similar to nitrogen fertiliser producer OCI N.V. (BB/Stable). OCI has higher leverage than Nufarm and the fertiliser industry is more commoditised with a higher margin volatility than crop-protection chemicals. However, OCI's credit profile benefits from its top-five market position and a low-cost asset base, which results in significantly higher margins compared with Nufarm.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Revenue CAGR of 4% over FY22-FY25;

- Average EBITDA margin, after deducting capitalised development costs and lease-related expenses, of 9% over FY22-FY25 (FY21: 8%);

- Average annual capex, after adjusting for capitalised development costs, of around AUD115 million over FY22-FY25;

- Total spending on acquisitions of around AUD550 million until FY25. The valuations for potential acquisitions remain uncertain; however, we have factored in the likely earnings contribution in our revenue growth and EBITDA margin assumptions.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Positive rating action appears unlikely in the next two to three years, although Nufarm's rating could be upgraded if total debt with equity credit/operating EBITDA leverage is sustained below 2.5x, or there is a material improvement in its business profile, potentially through better product and geographical diversification and/or improved vertical integration.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Total debt with equity credit/operating EBITDA leverage above 3.5x on a sustained basis;

- Sustained negative FCF;

- Evidence of weakening competitiveness and business profile, possibly through persistent revenue decline or margin erosion.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Liquidity and Debt Structure

Adequate Liquidity: We estimate Nufarm's readily available cash at around AUD560 million as of end-September 2021, lower than the reported cash and cash equivalents of AUD724 million after adjustment for working capital seasonality. By comparison, Nufarm's short-term debt (including adjustment for supplier financing) was lower at around AUD375 million. Long-term debt comprised almost entirely of USD475 million senior unsecured notes due in 2026.

We expect Nufarm to use its substantial cash balance to repay a portion of its debt, aside from seeking growth opportunities from bolt-on acquisitions. Nufarm's cash balance is likely to decrease, but we do not expect a material impact on its liquidity position as short-term debt, which is for working capital, should be rolled over or refinanced unless operations deteriorate drastically.

Issuer Profile

Nufarm is among the ten largest crop-protection chemical companies globally, with revenue of USD2.4 billion in FY21. Originating in New Zealand in 1916, Nufarm is now present in about 95 countries across the world and has its headquarters in Australia.

Summary of Financial Adjustments

Key financial adjustments include:

1) Due to the extension in trade payable days caused by the use of supplier financing arrangements, 40% of the total outstanding supplier finance amount (FY21: AUD297 million) is treated as secured debt and deducted it from trade payables.

2) Off-balance-sheet receivables (FY21: AUD18 million) and deferred debt establishment costs (FY21: AUD8 million) have been added back to debt.

3) Nufarm's step-up securities (AUD247 million) have been assigned 100% equity credit. Fitch has assumed permanence of these subordinated securities, given their relatively low cost and the flexibility it provides Nufarm of unconstrained coupon deferral on a non-cumulative basis.

4) A portion of reported cash, equivalent to 5% of full-year revenue, is treated as restricted to account

for intra-year working capital swings.

5) Additions to capitalised development costs (FY21: AUD76 million) have been treated as R&D expense and deducted from EBITDA. Inventory write-down (FY21: AUD17 million) has been added back to EBITDA.

Date of Relevant Committee

25 November 2021

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Nufarm Limited	LT IDR	BB	New Rating		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Corporate Hybrids Treatment and Notching Criteria (pub.12 Nov 2020)

Corporate Rating Criteria (pub.15 Oct 2021) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub.09 Apr 2021) (including rating assumption sensitivity)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub.15 Oct 2021)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

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