Third Quarter 2015 Results
TRANSCRIPT

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Corporate participants

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Mike Mack

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Presentation

Operator

This is conference # 30124014.

Thank you for standing by and welcome to the Syngenta 2015 third quarter trading statement.

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 star one on your telephone keypad.

I must advise you the conference is being recorded today, Thursday, October 15, 2015.

And I'd now like to hand the conference over to your speaker today, Jennifer Gough. Please go ahead.

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 to accompany the presentation are available on our website.

Please note the Safe Harbor statement on slide 2. This presentation contains forward-looking statements, so it's 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 with the US SEC for details about these and other risks and uncertainties.

And let me now hand you over to Mike to begin the presentation.

Mike Mack

Thank you Jennifer and good morning ladies and gentlemen.

2015 is a year in which our long experience of managing emerging market volatility has come into its own. In the first half the spotlight was on the CIS and the massive currency depreciation in Russia and Ukraine. Now it is the turn of Latin America, which in 2014 accounted for nearly 50 percent of our second half sales, and where the start of the 2015 season has been marked by economic and currency turbulence.

Please turn now to slide 3 for an overview of the third quarter performance.

Sales in the third quarter were unchanged at constant exchange rates. Adjusted for the change in sales terms in Brazil which we announced at the first half, and for the reduction in glyphosate, group sales were 8 percent lower. This is primarily a consequence of the challenging conditions in Latin America, in the face of which we continue to focus on our strong customer relationships and on credit risk management.

With all regions affected by the current low level of commodity crop prices, we are very encouraged by the success of our new products which continued into the third quarter, once again demonstrating that growers are ready to adopt new technology even in adverse market conditions.

The growth in these products is contributing to overall business quality, which is being further improved through the deliberate reduction in low margin glyphosate and through increasing corn trait revenue.

This morning we announced a new trait licensing agreement which will make a substantial contribution to earnings this year and which further underscores our strength in GM traits. And we are making excellent progress with our Accelerating Operational Leverage program, which is firmly on track to deliver the targeted savings.

Let me now hand you over to John for more detail on the quarter.

John Ramsay

Thank you Mike.

Please turn now to slide 4 for an overview of the sales performance. In the quarter, group sales at constant exchange rates were unchanged at 2.6 billion dollars. Reported sales were 12 percent lower, owing to significant currency headwinds. Sales for the integrated business were also unchanged at 2.5 billion dollars.

Over nine months, group sales were up 2 percent with reported sales down 11 percent. Integrated sales were up 3 percent at constant exchange rates with volumes down 2 percent and price up 5 percent.

Please turn now to the business update by region on slide 5. Sales in North America were 22 percent lower. Excluding the reduction in glyphosate, sales were down 20 percent. The main reason was phasing in selective herbicides, which were measured against a very strong quarter in 2014, when sales were up 24 percent. This year the timing of sales has been affected by the introduction of our new product ACURON. Deliveries of ACURON for the 2016 season will ramp up in the fourth quarter, in line with the timing of new plant production. Meanwhile in fungicides, low commodity prices have led to a reduction in discretionary crop enhancement applications.

In Europe, Africa and the Middle East, sales at constant currency were down by 1 percent, also compared with a strong third quarter in 2014. Dry and hot weather conditions in the summer season affected herbicide applications. Prices were up 4 percent, reflecting further success in offsetting the currency headwinds in the CIS. And for the first nine months of the year, the region continues to show an excellent performance with growth of 11 percent.

Sales in Asia Pacific were down 9 percent, owing to dry weather conditions in the ASEAN countries and a weak monsoon in India. In addition, the Thai market continues to be affected by high rice stocks and reduced government support for farmers. Despite these impacts on volume, price increases in the region were sustained.

Sales in Latin America were up 13 percent at constant exchange rates. Adjusted for the change in sales terms in Brazil and for the managed reduction in glyphosate, sales were 8 percent lower. There are several factors at play in the current market situation. The sharp depreciation of the Real in the quarter created major market disruption, and because of its suddenness we were not immediately able to raise prices to compensate. In addition, customers in both Brazil and Argentina are facing a liquidity squeeze which is influencing their purchasing behavior. In this challenging environment, we are pleased to see a significant increase in demand for our new fungicide ELATUS, to which I shall return in a moment.

Currencies have clearly been a major factor with regard to our 2015 performance. Slide 6 shows the extent of the movements we have seen.

As just mentioned, there has been a significant impact from the 28 percent depreciation of the Real versus the US dollar in the quarter, which brings the depreciation, year to date, to 50 percent.

The Russian Ruble further weakened in the quarter, with a drop of 18 percent versus the US dollar, albeit with a much smaller impact on sales, as Q3 is the low season in the CIS. I am pleased to report that close to 100% of the currency impact in the CIS, year to date, has been recovered through pricing measures. We will be following on from this precedent as we seek to raise prices in Latin America in the coming months.

With regards to the developed market currencies, EBITDA is largely protected against Euro and Swiss Franc movements through hedging.

Overall, for the full year, currency impacts will reduce reported sales by more than 1.5 billion dollars. In this context, it is noteworthy that we have been able to contain the EBITDA impact to around 130 million dollars for the full year, excluding CIS.

Given the extreme volatility in emerging markets, I anticipate net financial expenses to be around 270 million for the full year, as a result of higher hedging costs and unhedged exposures.

Please turn now to slide 7.

Over the years, Syngenta has developed an industry-leading presence in emerging markets, which represented more than 50 percent of sales in 2014. As you can see on the top left chart, we have achieved a remarkable 12 percent compound average growth rate in these markets. We have solid experience in managing profitability in volatile conditions such as those we are experiencing today.

By developing innovative financial solutions, we have been able effectively to manage risk while continuing to grow the business. As the bottom left chart shows, we have been actively protecting the income statement by recovering nearly all the adverse currency impacts through pricing measures. This is not always in the same period and we will be pursuing recovery in Brazil in future quarters.

Receivables management is a key focus and we have been selective in our extension of credit. Consequently, for example, we have, year to date, collected 100% of 2014 receivables in Russia and Ukraine. 2015 receivables have not yet fallen due but we expect the outturn to be in line with last year. This demonstrates our capacity to manage customer relationships in challenging and volatile conditions.

I now would like to share with you some more insights on the current market developments in Brazil, turning to slide 8.

This chart describes the evolution of the crop protection market in Brazil between 2014 and 2015.

Starting on the left, you will see that in 2014 product demand at 11 billion dollars was lower than the market as represented by industry sales, which totalled 11.7 billion. This was due to phasing and to a build-up in insecticide inventories.

While in 2015 the market is expected to have declined by 16 percent, product demand has remained robust. There has been a continued uptake of technology, although this has been offset by a decline in glyphosate prices. The introduction of Intacta technology has had only a limited impact on crop protection sales.

The devaluation of the Real will have a significant impact on the market size but, as I have said, I would expect some recovery of this through price in future seasons.

So, despite challenging conditions, farmers are adopting new crop protection technology to maximize returns, as we can see with the further growth in ELATUS.

Please now turn to slide 9 for an overview of the crop protection sales performance by product line.

Third quarter sales for crop protection were up 3 percent.

Sales of selective herbicides were down 7 percent at constant exchange rates following a strong first half. Dry weather conditions in Europe led to lower applications. In North America, the introduction of ACURON has been a success with the ramp-up of sales due in the fourth quarter. As a result, we are on track to reach our objective of over 100 million dollars in sales for this product in its first year.

Non-selective herbicide sales declined 34 percent, largely reflecting the deliberate reduction in solo glyphosate. We have made good progress on the execution of our managed reduction and I will provide you with more information on the following slide.

Fungicide sales were up 28 percent. Brazil was the main growth driver, with strong underlying demand for our blockbuster fungicide ELATUS, as well as the positive impact of the change in sales terms.

Insecticide sales increased 4 percent and saw growth in three out of four regions, led by ACTARA.

Seed care sales increased 19 percent, recovering from a weak first half. Sales in Brazil were strong and benefitted from the renewed registration of AVICTA on soybean.

Slide 10.

Last year we announced our intention to deliberately reduce sales of solo glyphosate in order to improve profitability. As a reminder, we took the decision to focus on mixtures, thereby offering growers effective solutions to combat weed resistance.

We expect to close 2015 well ahead of plan, with a solo glyphosate volume reduction equivalent to 250 million dollars. We continue to anticipate a further sales reduction of 150 million in 2016. This will take solo glyphosate sales down to less than 350 million dollars compared with our original sales target of around 600 million. As well as our determined reduction of volumes, the number reflects the downward trajectory of glyphosate prices, shown in the chart, bottom left.

The share of more profitable mixtures in our portfolio will increase to nearly 50 percent in 2016.

Please turn to slide 11 for an update on ELATUS.

Following a strong launch last year, ELATUS has got off to a good start. As I mentioned earlier, growers in Brazil are adopting new crop protection technologies in spite of adverse market conditions. ELATUS is providing unrivalled control of soybean rust, one of the most important issues for Brazilian growers.

Volumes sold as at September 2015 represent more than 65 percent of the total volumes sold in 2014. We expect significant sales in the fourth quarter with full year sales exceeding 400 million dollars despite the negative impact from currency. In September, Solatenol, the active ingredient for ELATUS, received US registration putting us well on track to reach our peak sales target of 1 billion dollars by 2020.

Let's turn now to slide 12 for an update on Seeds.

Seeds sales were down 15 percent in the quarter.

We saw good growth in our branded business for Corn as well as in our Greenleaf Genetics business in the US.

Soybean sales however, have been adversely impacted by lower US acreage, and by the shift of sales in Brazil to distributors, as part of the Integrated Business Partner model. This initiative is a critical enabler of our profit improvement target for Soybeans. Under the integrated model, our partners multiply our seeds and sell them to their customers, but with a Syngenta brand allowing premium pricing.

In Diverse Field crops, Cereals sales in Europe were strong, with a good performance of Hyvido hybrid barley. This was more than offset by a reduction in Sunflower volumes across several markets.

Vegetables sales were up 4 percent, with solid demand in Europe and North America as well as broad-based price increases.

Please turn now to slide 13 for an update on our Corn seed business. At the first half we described to you how our revenue stream from corn traits is expected to double between 2014 and 2020. This morning we announced a new licensing agreement with KWS and Limagrain under which they receive rights to our current traits, shown on the slide, and to future traits in our pipeline. We will receive an upfront payment of 200 million dollars in the fourth quarter of this year which, after a provision for third party royalties, will contribute around 150 million dollars to EBITDA. A further payment is envisaged subject to regulatory approvals.

The outlicensing of GM traits is a key driver in improving seeds profitability. Our ability to conclude agreements on this scale demonstrates the quality of our trait portfolio, and its value creation potential.

Let me turn now to the Outlook for the full year on slide 14.

Currencies will continue to have a significant top line impact for the full year. At constant exchange rates we expect sales to be broadly unchanged and EBITDA to show a double digit increase, reflecting the realization of the targeted AOL savings, the price increases implemented in the CIS, and the corn trait licensing agreement just discussed.

Reported EBITDA is likely to show a mid-single digit decline, below our target owing to the recent deterioration of the Real and the difficult market environment in Latin America. Free cash flow, while below last year's level, will remain robust.

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

Mike Mack

Thanks John. Please turn now to the final slide on page 15.

As we look ahead to 2016, our focus is on expanding our leadership position in turbulent market conditions. The delivery of our new crop protection products and pipeline will make a key contribution, and our experience this year has shown that innovation can still thrive during market downturns.

With four years' experience of integration now behind us, we have the commercial expertise to drive the integrated business model forward. We know what works well and what works less well, and will be further targeting our offers to exploit our portfolio strength. At the same time, the implementation of the AOL program will bring us towards our goal of world class efficiency in commercial, R&D and supply chain operations.

We have today demonstrated further progress in unlocking the worth of our seeds portfolio with the addition of two new trait licensing agreements announced this morning. We are working actively to improve profitability across all our seeds businesses and are determined to realize their value potential.

Underlying demand in our industry is resilient. Farmers will continue to plant crops and run their business. We will continue to focus on helping them to do that at the moment in Latin America, and we will do the same as we move into the next season in North America and Europe.

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

Questions and Answers

Operator

Thank you very much. We will now begin the question and answer session.

If you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash key.

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

Sophie Jourdier – Liberum

Morning. Thank you. I've got two questions. First of all, you haven't mentioned in the release today, or in your presentation, anything about the share buyback program you announced back in September. I just wondered whether you could update us as to the expected timing of that, and also whether you could just update us as to how the plan to divest both the flower seeds and the vegetable seeds businesses is going. That was the first question.

And the second question, just wondered whether you could help us a little bit in terms of the quantification of some of the factors that affected your third quarter sales numbers. In particular, could you give us the hit from glyphosate in the third quarter and the quantification of the change in sales terms in Brazil in the quarter? Many thanks.

Mike Mack

John?

John Ramsay

Well, first of all, on the share buyback, Sophie. The buyback's going to start tomorrow and will proceed into 2016. We'll buy back shares over a period of time.

The plan for flowers and vegetables is very much on track. Flowers is in advance of Vegetables. We have an information memorandum gone out to interested parties. And very shortly we'll be receiving the response in terms of non-binding offers, so that's proceeding well and will conclude in 2016.

Vegetables is a bit behind flowers. It's bigger, more complicated, so there's quite a bit of carve-out work associated with Vegetables, which will take us into the first quarter. But we anticipate getting information memorandums out in Q1 of 2016.

What I might just add to that point is that we have got expressions of interest from multiple parties here. There's a very high level of interest in both businesses, and we do expect a very competitive option for both businesses.

I think your third question was in relation to glyphosate. The hit on glyphosate was about $300 million of difference in terms of sales value. We're down about 45 percent, I think, in total. And that is largely to do with volume reduction, which has been managed out, and that's over the nine-month period.

Sophie Jourdier – Liberum

Ok.

John Ramsay

The change in sales terms, if you recall at the half-year, was about $190 million that moved from quarter three into quarter two. And we've got about $340 million, which is moving out of quarter four into quarter three. So nine months' effect is about $530 million, and the majority of that will reverse in the fourth quarter, the $340 million will reverse in the fourth quarter. So at the end of the year you'll have a combined effect, year-on-year, of about $190 million.

Sophie Jourdier – Liberum

OK, thanks. Thank you very much.

Operator

Thank you. Our next question is from Christian Faitz from Kepler. Please go ahead.

Christian Faitz – Kepler

Yes, good morning. Just two quick questions. Can you give us a rough idea of the future cash inflow streams from the royalties you expect from the AgReliant out-licensing deal, on top of that $200 million, obviously.

And then second question, in terms of your free cash flow guidance, which number would you label as “robust” that is quoted in your outlook? Thank you.

John Ramsay

Yes. In addition, on the royalties point, Christian, the $200 million will be received in the fourth quarter. And then there is another $100 million which is subject to regulatory approval in the future. And then, many years in the future, there's royalties.

In terms of free cash flow I would say, given the conditions that we're experiencing in Latin America and the likelihood of receivables going out a bit in both Argentina and Brazil, then I'm judging something like $750 million as robust.

Christian Faitz – Kepler

Very helpful. Thank you very much.

Operator

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

Andrew Benson – Citi

Yes, thanks. Just on that credit. You've written in the slide about selective extension of credit. And I just want to understand whether you are -- you've hinted at it in the answer to the last question -- whether you are giving more credit and how you plan to manage that.

And then presumably, with $190 million increase in sales in 2015, and you're just pulling forward sales, does that mean that you're going to see a significant hit to sales in 2016, please?

John Ramsay

Yes, just on that last point first, then I'll come to the credit, Andrew. I think all we're doing is just recognizing sales a few weeks earlier than otherwise would be the case. And the impact is $190 million that we'll be recognizing in 2015, but we're pulling forward sales on a consistent basis thereafter. So in 2016 you'd expect, all other things being equal, to have a similar phasing profile. So it's really just affecting the 2015 numbers compared to 2014.

I think the credit question is an important one because what we're seeing, in emerging markets generally, but very much a feature of Latin America, particularly in Brazil and Argentina, is not to do with agriculture but to do with the general economies there. There's been a sucking-up of liquidity. The liquidity in the credit sources that growers had previously been available to them, have basically contracted. So there is now -- even though the fundamentals of agriculture are sound, there is a need to find additional forms of credit. So we do anticipate that we will be extending terms, selectively, to enable growers to get through this difficult period.

We're helping the situation very much by a whole series of financial solutions, such as securitization of receivables with banks and barter arrangements and some innovation around that. But, fundamentally, we will have to extend terms to selected customers.

And it's not as if we haven't been here before. Back in 2001 when we had the demise of Argentina and the pacification, we extended terms for over a year, eventually collecting over, I think, about $5 million or something, that we didn't collect at the end of the day. So it's all about making sure you make those judgments well, supporting those customers that are going to do well, and eventually they will get paid by growers and we will get paid.

We did a similar thing in southern Europe quite recently, following the financial crisis. And we've been doing that, to some extent, in CIS in the last couple of seasons to a very high level of success. We're collecting 100 percent of receivables in CIS now, but we have extended terms there. We're going to have to do something similar in Latin America.

Andrew Benson – Citi

I just want to ask -- I'm trying to work it out, but it's a little bit tricky to. A lot of companies report sales change in terms of volumes, price, portfolio and currency. Do you have those numbers to hand for the third quarter?

John Ramsay

Yes, very much so. We have, basically, in the press release, basically, for the third quarter, we're talking something like, in constant currency, we're flat. And that is a combination of volume and price. Price will be down a couple of percent points because of the Brazil impact and volume up. And currency is down 12 percent, overall. There isn't really a portfolio effect other than the change in terms, which we've just discussed, which in the quarter, as I've said in answer to the previous question, about $340 million, which is in the volume figure.

Andrew Benson – Citi

Thank you very much.

Operator

Thank you. Our next question comes from the line of James Knight from Exane BNP Paribas. Please go ahead.

James Knight – Exane BNP Paribas

Morning. I'm sorry if I've missed something, but I was a bit surprised; the guidance for the EBITDA impact from FX in this year is the same as the first half, given what's happened to the Real. Perhaps, more interestingly, if you took current rates and assumed flat going forward, could you give some indication of what the potential hit for 2016 might be? Thank you.

John Ramsay

James, let me just explain what's happening in Brazil. Fundamentally you've got a large part of that market which traditionally has been receptive to dollar pricing, on the basis that many growers there are effectively getting dollar income as a consequence of the exports that they're making.

Now, the difficulty they have is, with lower crop prices, when you translate that into Reals, they are doing extremely well, because of the devaluation. But being able to get dollar pricing in that environment, through the third quarter, has been particularly difficult, given that they're thinking more in Reals now, in terms of their income, but particularly because the exchange rate moved so quickly. And therefore getting price lists out, which you have to do in Reals, even though you're basing it on a dollar comparison, was very difficult in those challenging market conditions, given the size of the devaluation and the speed at which it moved.

So what you had was, basically, a number of sales moving in from dollarized sales to Real sales, which we were able to hedge, but we're taking a price hit. As I mentioned in the answer to the question to Andrew, there is a price hit in the third quarter in Brazil, which is basically where that currency impact is coming through, if you like, because it's basically dollarized sales that we weren't getting the prices up, so we treat that as a price variance. And that's why, because of the way in which we've managed it, we have been able to contain the impact on the bottom line and been able to keep the total currency impact, excluding that price impact in Brazil, to $130 million for the full year.

James Knight – Exane BNP Paribas

Could I tempt you to give an outlook for 2016 in terms of the potential currency hit?

John Ramsay

Yes. I was hoping you were going to forget that question. But I think best estimate -- I always hesitate to give you what will happen in the third quarter. But look, the best estimate on forward rates, sitting here today, the equivalent of the $130 million that we saw coming off EBITDA in 2015, my estimate would be a further $50 million in 2016 on EBITDA.

James Knight – Exane BNP Paribas

Thank you very much.

Operator

Thank you. And our next question comes from the line of Paul Walsh from Morgan Stanley. Please go ahead.

Paul Walsh – Morgan Stanley

Yes, hi guys. Thank you very much for taking my question. I was just wondering if you could help on a couple of things. Number one, just thinking about the guidance, and if I adjust it for the licensing income and to some extent the reimbursement benefit, which I estimate to be $40 million to $50 million, it implies a run rate EBITDA this year of about $2.6 billion, which feels -- I'd just like to understand, excluding the licensing income and the reimbursement benefit, where that margin pressure is really coming from, given the currency effect hasn't really changed. And just anything you could give on that would be helpful.

And then, in terms of the business-partner model that you talk about on Soybean, can you just help me understand that a little bit as well, please?

John Ramsay

OK. Look, the question of the license income run rate on EBITDA and impact, I think, if I understand your question, the licensing income is about 5 percent of EBITDA, isn't it, roughly speaking. So if we're at mid-single digit decline in 2015 compared to 2014, you've got another 5 percent associated with the licensing income, then it takes you to that level of EBITDA that you've mentioned.

What's happened here, in terms of the comparison, with where we were when we last gave guidance on EBITDA which was basically flat on 2014, is fundamentally the third quarter performance in Latin America. There's probably something like, compared to the previous guidance, $150 million which has not been recovered in price, and about $200 million in sales that we were anticipating making there, basically due to the credit situation and the over-supply situation, which we mentioned in the prepared remarks. That's fundamentally what's happened there.

We will, I anticipate, as we go into the 2016 season in Brazil, recover more of that price variance. You saw in the chart in the presentation how successful we've been in obtaining price increases in these emerging markets. That has not always been historically in the same time period. And that certainly is the case in Latin America, Brazil particularly, when we have seen the extent to which the currency is devalued and not getting the price recovery as anticipated in the quarter. We anticipate getting a lot of that back in the following season.

The business-partner model is fairly straightforward; instead of us taking all the production risk, we're passing that to our partners. They're taking that risk. They're able to sell the product, they multiply up the seed, they use our brand and therefore continue to get premium pricing. But basically it's a risk-sharing, cost-sharing arrangement whereby they get access to the market and we get a sharing of the costs and risks.

Paul Walsh – Morgan Stanley

That's very helpful. And just maybe a follow-up on the first point. By changing the reimbursement terms, do you end up with more inventory sitting in the chain next year? I'm just wondering what your thoughts are around being able to recover price if we're still inventory heavy, not just for your guys but across the industry as a whole, moving into 2016. That's what you did successfully in Eastern Europe, so I'm just wondering if the inventory situation in Brazil mitigates some of that potential.

John Ramsay

The pricing situation in Brazil has nothing to do with the inventory. We've managed the inventories in-channel extremely well. The reimbursement change that you refer to doesn't impact at all our management of in-channel inventories. What we're doing is we're basically just recording the sales at a slightly earlier point in time; it doesn't change our fundamental management. We haven't suffered on price because of the high level of channel inventories, which largely are in relation to competitors. It has impacted volumes, because it's taken some value out of the market compare and brought it forward into last season, but I'm not worried about pricing opposite inventories.

Paul Walsh – Morgan Stanley

OK, that's very clear. Thanks a lot.

Operator

Thank you. Our next question comes from the line of Patrick Lambert from Raymond James. Please go ahead.

Patrick Lambert – Raymond James

Hi, good morning. Thanks for taking one big question about pricing again. Could we have the price increase or decrease per division, crop protection and seeds, and also, excluding the CIS impact and the glyphosate impact, just the underlying pricing?

And again in terms of LATAM price impact, I think you mentioned $150 million. But is there any recovery you can do in Q4 in terms of raising prices here? You've done that before pretty quickly. Is the overall impact would be about $150 million for the year in terms of pricing in LATAM? Thanks.

John Ramsay

Yes, thanks Patrick. Let me just give you some figures and go into some explanation if you want. But the high level figures, year-to-date pricing in crop protection, excluding glyphosate and excluding CIS, which I think was the request, we're down for crop protection about 0.5 percent for the division as a whole.

Patrick Lambert – Raymond James

And that would be mainly Brazil?

John Ramsay

That's mainly Brazil. There was a fungicide pricing adjustment in the United States back in 2014 which is reflected in these numbers as the inventory was sold out. And that's mainly in Brazil. In respect of other markets, within those numbers you've got Western Europe up 1 percent, then you've got Asia Pacific up 3 percent and you've got Latin America down 2 percent. Within Latin America, Brazil is down 4 percent or 5 percent and we've got price increases in Argentina and in the north. That's broadly the profile. All of that is excluding glyphosate.

The profile in seeds is, excluding CIS, prices overall up 1 percent.

Patrick Lambert – Raymond James

Great.

John Ramsay

And in respect of your final question, the figures I'm giving, in terms of variance from the guidance previously, we had anticipated getting a bit of price increase in Brazil before the third quarter came along. And the pricing variance for Brazil for the full year will be about $120 million. And, as I say, we will be targeting to get most of that back in 2016.

Patrick Lambert – Raymond James

Yes. Do you still have to raise prices in CIS with the Ruble? In particular Ukraine looks pretty flattish.

John Ramsay

Ukraine was flattish, but the Ruble deteriorated significantly in the third quarter and we had to raise prices again, but appreciating it's a relatively small quarter for the CIS. But we have raised prices in anticipation of the season starting, which is just in coming weeks.

Patrick Lambert – Raymond James

So better than last year in terms of timing of raising prices there? I think you had to wait last year, basically the new season?

John Ramsay

Well yes that's right. We're ahead of the game insofar as we know what we're doing -- we're ahead of season -- on the basis that we don't get dramatic volatility as we try and establish price lists. But we're going into the new season with the intention of fully recovering the currency variance.

Patrick Lambert – Raymond James

And, sorry, just a follow-up on Christian's question on royalty payment. There is no volume-driven payments going forward on MIR162 and the other traits, the current traits? It's just an upfront payment, or there's some volumes-derived payment going forward?

John Ramsay

For the foreseeable future, insofar as the deal that we've just announced, it's basically on milestone payments and there's no volume related until sometime in the future. But don't forget, as the chart shows, I think, which is in the presentation, there is significant royalty income coming. And it's about to ramp up from volume-associated receipts from other third parties as we go into 2016/2017.

Patrick Lambert – Raymond James

Great, thank you very much.

Operator

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

Tony Jones – Redburn

Morning everybody. Three from me. Firstly, are you able to say a little bit about how inventories are looking in Europe and North America perhaps for Q4 but, maybe more importantly, if you've got any views as we look forward to next year?

And then I just wanted to check the net financing costs. So you've highlighted it at $270 million. I had a look at the Q2 presentation, but I couldn't check whether that guidance has increased or not, so a bit of help there would be good.

And then, finally, on the impact from Intacta in Brazil. It doesn't look like it had a significant impact, as you've shown in this period. But I just wanted to check, do you not think that this product will ramp up? So is the comment that it has limited impact in this period, is that you don't think it will be a further headwind, or do you think that we should be starting to think about that in our modelling for next year? Thanks.

John Ramsay

Maybe in reverse order then, Tony. Look, don't misinterpret my remarks on Intacta. Intacta is a very good product, it's looking to be very successful. I think the penetration in the period that we were discussing, and that's reflected in that chart, has doubled. I think it's gone from about 20 percent to over 40 percent penetration. So I think this is a good product and it's having good traction with growers. The point I was making was more just putting it the context of the size of the Brazilian market and particularly the variance in the 2015 season; so that was the only point.

In terms of net financial expense, I think last year we had a net financial expense of about $220 million. At the half-year I did indicate that it was going to be higher; I had about $240 million in mind. And it's gone up as a consequence largely of Brazil; not exclusively Brazil, but we're just seeing every emerging market around the world depreciating against the dollar, so that's where we've come from.

In terms of inventories, I see nothing particularly adverse to report about inventories in both Europe and North America. If anything, I would expect, in North America, inventories to decline given the focus we're seeing from distributors on working capital and a bit of overhang that we saw at the end of last season. So I don't think we should be worried about inventories in the northern hemisphere.

Tony Jones – Redburn

Thanks very much. Just a quick follow-up though on the financing costs. Thinking about that for next year, should that decrease then?

John Ramsay

If currency volatility declines, which I sincerely hope it does, yes.

Tony Jones – Redburn

Great, thank you.

Operator

Thank you. Our next question comes from the line of Thomas Gilbert from UBS. Please go ahead.

Thomas Gilbert – UBS

Yes, good morning. Thank you for taking my question. It's around the corn trait licensing agreement. I do appreciate that there is not imminently ongoing royalty payments, but could you tell us how long does it take to ingress the trait into the germplasm?

And secondly, can you just highlight or disclose relevant either a global or a US market share, corn market share of AgReliant Genetics so that we can dimensionalize the potential?

And just clarifying on the cash impact of the payment, so the EBITDA impact is $150 million. That's net, I reckon, of a provision for royalty pay-aways. The cash impact in Q4 is $200 million not $150 million; did I understand that correctly? Thank you.

Mike Mack

Maybe I could start with the introgression remark and the question about the market share. I think I would defer to either third party sources or to KWS, Limagrain and AgReliant to describe their market share, Thomas, but I think you should be able to get at that without a great deal of fuss.

Introgression -- by the way, you all know this, that these discussions around trait licensing they can take place over a long period of time. And there are things known as material transfer agreements where people can begin to do some of the work ahead of the announcement of an arrangement. So you would not necessarily assume that the business of introgression would start after the announcement; it could well have started before. And again that is something that would be between us and our client in this case. But with respect to the product concept that they intend to deploy with this and how it goes into their offering, I just would need to refer you to our customer in that respect.

John, clarity on the cash in the quarter?

John Ramsay

Yes. The provision is for the future, so it's $200 million in the fourth quarter.

Thomas Gilbert – UBS

Thank you.

Mike Mack

Thank you, Thomas.

Operator

Thank you. Our next question comes from Markus Mayer from Baader Helvea. Please go ahead.

Markus Mayer – Baader Helvea

Yes. Also three questions if I may. One add-on to Thomas' question. You also said that this licensing agreement might have a margin impact. Maybe you can quantify this, what you expect going forward?

Then secondly, can you remind us on the defence costs you had for the -- i.e. for lawyers for the Monsanto takeover.

And then lastly, maybe you can update us on where are you in this divestment process of your flower seeds business. Thanks.

John Ramsay

I'm not sure I understand the point about the license agreement margin impact. Clearly it will have a margin impact this year insofar as we will have royalty income of $200 million on the top line, and bottom line impact about $150 million.

I think the comments may have related to the point we've been making for some time, is that we do expect our ongoing royalty income to ramp up from next year, which is demonstrated on the slide. And that will be a contributor to improved seeds profitability going forward.

Insofar as costs in terms of the consultancy work that we had in relation to the Monsanto approach, together there will be a higher impact on the restructuring cost line this year, which I anticipate, including disposal provisions for and work associated with the vegetables and flowers divestments, of an additional $50 million.

The process for both of those disposals is going very well, the flowers, of course, is ahead of vegetables. We have an information memorandum that's been published and distributed to interested parties. And we expect, within the next few weeks, non-binding offers. Vegetables is a bit behind because it's more difficult in terms of getting established, the carve-out, but that work is well underway and will be completed in the coming couple of months. And we anticipate an information memorandum going out in Q1. Both of these businesses will be complete, in terms of disposal, in 2016. I would say that there has been a very high level of interest. We have got many parties expressing interest and I do expect for both businesses there will be a very competitive option process.

Your final question -- I think that's it all isn't it, Markus?

Markus Mayer – Baader Helvea

Yes it was, yes. Thanks so much.

John Ramsay

Thank you

Operator

Thank you. And our next question comes from John Klein from Berenberg. Please go ahead.

John Klein – Berenberg

Yes, hi there, good morning. Thanks for taking my two questions. On slide 11, would you be able to share with us how much of the 65 percent, or larger than 65 percent, of year-to-date volumes for Elatus are? And can you break that out between the revenue recognition of Q4 and Q3; does that have an impact on this number?

And secondly, would you be able to share the planned Viptera acreage for 2016, both own sales and licensed? Thank you.

John Ramsay

Look John, I think the best way of looking at the Elatus thing is not to have any confusion around the revenue recognition, because we're talking here about a matter of weeks. And what we're doing is managing the in-channel inventories anyway. So when we give a figure for the full-year of in excess of $400 million, then comparing that to somewhere between $300 million and $350 million I think was the number for 2014, that's the level of comparison I think we should be making; and not to worry too much about the actual timing of the revenue recognition, because, as I say, we are managing the in-channel inventories and we'll ensure that there's not an excess there in any way between one year and the other.

Viptera acreage must be well above 30 percent now isn't it?

Mike Mack

Yes, we think it's going to be mid-30 percents of our mix this year and we're going to be continuing to push that up in 2016; acreage, of course, to be determined by the overall called-in corn acres. It's a bit early to call that yet, but ever onward and upward with Viptera in the mix.

John Klein – Berenberg

Brilliant, thank you.

Mike Mack

Thank you.

Operator

Thank you. And we will take our last question from the line of Jeremy Redenius from Bernstein. Please go ahead.

Jeremy Redenius – Bernstein

Hi, good morning, it's Jeremy Redenius. Thanks for taking my questions. Firstly I just wanted to ask about just the timing of the price increases in Latin America. A competitor of yours said that they got about 40 percent of their currency hit recuperated in Q3; I'm just wondering if there might be any difference that's made your timing look a little bit different from that?

And then, second, maybe you could talk about the volume developments around the world by region in Q3, just to get a sense of where it was up and where it was down? Thanks.

John Ramsay

40 percent; I would imagine we're at probably about a similar level actually, just doing the mental maths on it. I know of no reason why we necessarily are different from the competition. We have got a reputation of being very determined on pricing, but I know of no reason why I would suggest a different figure from the one that you have. As I said previously, the difficulty was just the sheer scale of the devaluation in the Real and the difficulty, practically, in getting out and getting negotiated with customers.

Volume developments around the region, well, I think we've discussed Latin America in some detail; other than just to reinforce the fundamental point in the presentation, is the robustness of the chemicals market there in terms of consumption and the fact we are actually seeing, despite very difficult conditions, an increase in take-up of technology. And the factors affecting the market are largely about the carry-over inventory and the currency impacts.

In Asia, we've had a bit of a hit from the El Nino dry weather in the ASEAN countries, but, other than that, volumes are progressing to plan, particularly in terms of the markets of Japan and Australia.

In Europe it's a low quarter, not a great deal to say. Things are ramping up for the new season and going very much to plan. Farmers there are in a pretty good position opposite the benefits they get from the devalued euro, so anticipate that continuing to be a feature going in to the 2016 season.

North America, again it's the smallest quarter. I think you're only selling something like 12 percent to 14 percent of the annual volumes in North America and you get phasing impacts associated with the timing of filling the tanks. And you shouldn't read too much into the third quarter; particularly we have been impacted by the ramp-up from the production of Acuron, which has meant that we will be having fourth quarter sales which may otherwise have been sold in Q3.

So I think the focus really is very much on Latin America at this time of year and that dominates everything before we get into the 2016 season.

Jeremy Redenius – Bernstein

And could you say if volumes in Western Europe were up or down? I'm just trying to sort through, because the price impact is -- the currency impact is quite strong with CIS, so I'm just trying to isolate Western Europe.

John Ramsay

Western Europe we got prices up 1 percent.

Jeremy Redenius – Bernstein

And volumes?

John Ramsay

Volumes were up as well, yes.

Jeremy Redenius – Bernstein

OK. And then if I could just go back to my first question about the timing of the price increases in Latin America, I was just trying to reconcile your comments with the bottom left of page 7 which shows, for EM overall, a negative currency impact in Q3, but no price increase.

John Ramsay

What we're trying to do is offset the currency and what we're representing in that chart is the extent to which we've not offset the currency. So it's not as if we haven't achieved some of the currency offset, it's that we've not achieved the full amount. So what we have in Latin America is a shortfall opposite the dollar price list, which needs to be made up in the following season.

Jeremy Redenius – Bernstein

OK, but this shows zero percent price increase in Q3. And you'd said you had recuperated something like 40 percent of the –

John Ramsay

Yes, because what's happening here, Jeremy, is that we are classifying what we previously had in the market as dollarized sales, right. And what's happened is we've had a portion of those sales move into what are classified as Reals sales. Now we can treat that as a currency variance if we like, but basically what we have done is not managed to recover pricing on those sales. What we've done is we've managed to recover the pricing in that element which remained classified as dollarized, which is not in that chart basically.

Jeremy Redenius – Bernstein

I see, OK. And so just the bottom line is -- and I think you've said this earlier, but just to make sure I heard, the bottom line earlier in the call was the price variance you'd expect, the price versus currency you'd expect for Latin America for the full year was $120 million or $130 million minus. Did I hear that correctly?

John Ramsay

That's correct, that's correct. And what we're saying is we shouldn't deceive ourselves by thinking that we allowed the market to take sales, which were previously negotiated and managed in dollars, to just suddenly classify those as local currency sales. So what we will be doing, in the coming season, is to look to get back those sales, back into thinking about them as dollarized and recovering the pricing on them.

Jeremy Redenius – Bernstein

OK, understood. Thanks very much for that.

John Ramsay

Thank you.

Mike Mack

Ladies and gentlemen, thank you for joining the call. If you have any further questions, of course, please give Jennifer Gough or Bastien Musy a call on Investor Relations and we look forward to taking your questions then. Thank you.

Operator

Ladies and gentlemen, thank you for participating. That does conclude our conference for today, you may all disconnect.

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