Case Study

A new-look Nufarm

While the company's aggressive cost-cutting program was treated with scepticism initially, investors have now embraced the streamlined outfit.

By Domini Stuart

Greg Hunt was still new to the role of Nufarm's CEO when he appointed Mark Keating as his general manager, investor relations. It was an insightful choice.

Keating's background is in finance. In his 15 years with the company, he has held a number of senior positions including a period as acting chief financial officer. But by his own admission, he had only a sketchy idea of what his new job would entail. Two years later, Nufarm received the 2017 Australasian Investor Relations Awards First Advisers Award for Best Investor Relations by a Company in the ASX Mid-Cap 100.

His appointment coincided with the launch of a radical transformation of the agricultural chemical and seed company.

"Nufarm developed as an entrepreneurial, sales-driven company," says Keating. "Our previous CEO did a terrific job of building what had been a purely domestic business into a global company with a presence in all the main cropping agriculture countries. But different leadership styles suit different stages of a business and the board recognised it was time for a new set of skills. Greg was brought in to consolidate and build on all that had been achieved so far."

Hunt set about benchmarking the company's performance against its peers. "When it became clear our cost base was too high we developed what we call our performance improvement program," says Keating.

"We set ourselves a target of taking $116 million in costs out of the business over a three-year period to the end of the 2018 financial year."

Most of the cuts came from the supply chain. "We closed down five of our 16 manufacturing plants and efficiency tested the rest to find ways of operating more cost effectively," says Keating. Hunt also saw potential benefits in adopting a more global approach to the business.

"Our operating model was quite decentralised," says Keating. "Each of our five geographic regions – Australia and New Zealand, Asia, Latin America, North America and Europe – had a regional general manager with a broad spectrum of control. Greg simplified this into three pools – customer, portfolio and supply chain."

Today, one group executive in Melbourne is responsible for manufacturing plants, procurement and logistics on a worldwide basis.

"He's looking at the global operation of supply chain and how we can get a cost-competitive product to the customer," says Keating.

The company is also investing heavily in streamlining systems and processes.

"Each region had different ways of doing things, including different ERP systems," says Keating. "Once the way we do business is consistent across the globe we will be able to extract the full benefits of being a large, international company. We call this a one-Nufarm approach."

A worldwide review has identified gaps in the current product portfolio as well as opportunities to optimise spending on new products coming through the pipeline.

"This has allowed us to minimise overlap and reduce the number of small projects so we can direct more resources to larger projects with the potential to deliver better returns," says Keating.

Hunt also decided to sharpen the company's focus. "We can get more bang for our buck by concentrating on a handful of key crops and core hub countries – Australia, Brazil, the US and, in Europe, France, Germany and Poland," says Keating

"We still have adjacent spoke countries such as New Zealand, Argentina, Canada and, in Europe, the United Kingdom, Spain and Italy in our sights. But our strategy is to go deeper rather than broader in our investment and resource allocation. This makes decision making simpler. For instance, if we're considering an acquisition, building our portfolio or acquiring more customer-facing resources, our first question is: does this align with strategy? If it doesn't, we can cross it off the list."

Keating's initial announcements about the company's new strategy were greeted with scepticism.

"The plan to take $116 million costs out of the business was certainly ambitious," says Keating. "At the time, earnings before interest and tax were only about $200 million, so this was a significant amount. When we made the announcement we were transparent about where the money was going to come from. But most of our analysts still thought we were aiming too high. It was up to us to build trust and confidence by delivering what we promised."

Nufarm is now confident of achieving that goal and has already reached another of its three longer-term key performance indicators (KPIs).

"We're a high net working capital business so we set a target for our average net working capital to fall below 40 per cent. We achieved this in the 2016 financial year," says Keating.

He admits the company is unlikely to achieve the return on the funds employed (ROFE) target of 16 per cent within the initial time frame. But with the transformation program drawing to an end, Nufarm is well placed for future growth.

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Mark Keating, Nufarm

"Our improved efficiency coincided with consolidation within the industry, which has opened up opportunities for acquisition," he says. For example, in the last quarter of 2017 Nufarm acquired a $691 million European product portfolio from Adama Agricultural Solutions and Syngenta Crop Protection, which has increased market share in Europe and will significantly increase its business there.

These acquisitions may not affect earnings this financial year but Keating expects them to add between $110 million and $115 million in earnings before interest, tax, depreciation and amortisation in fiscal 2019. Regulatory approval for Nufarm's proprietary Omega-3 canola in Australia has opened up a significant opportunity for local growth.

"The performance improvement program has enhanced our margins and results," says Keating. "We have been able to grow top-line sales and improve our performance against our peers. In the last two to three years our sales have grown faster than most of our competitors. Our first-half revenue rose 7.4 per cent to $1.46 billion from the previous year despite very little growth in the industry overall. This is an exciting time for the company because people want to work for, or to invest in, a company that's growing, profitable and successful."

Positive messages may have made Keating's job a little easier but the news hasn't all been good. Transformation on this scale brings disruption along with its own costs, and these challenges were compounded by matters outside the company's control. Soft commodity prices and tough competition in pricing had an impact, as did the recent drought, which reduced crop yields in Argentina, which is one of Nufarm's bigger markets. Despite a seven per cent increase in revenue, Nufarm's half year net profit of $12 million was down from $20 million the previous year.

"We're a complex and global agricultural business operating in a seasonal, cyclical environment that can be quite volatile," says Keating. "It's vital our investors have a reasonable understanding of the things we can't control, such as the effect of natural disasters [on our operations].

"Our policy is to stay on the front foot and clearly communicate risks so the inevitable challenges don't come as a surprise. In our industry, it's very unlikely every geographic segment will be firing at the same time. So we're very open about what's happening and what we're doing about it. If investors have concerns around cash flow, for instance, we take them through the various components to explain how that works in our business."

Nufarm is also very accessible to investors. "We accept most requests for meetings," says Keating. "Paul Binfield, our CFO, has been particularly active in that area and Greg is also very good at communicating with our stakeholders."

As for the AIRA award, Keating says he was very pleasantly surprised to be honoured in that way and that his understanding of the numbers and the underlying businesses help him tremendously in his role.

"From there, I believe it's down to open and honest communication," he says. "We do perception reports with our investors and we've found that, overwhelmingly, they have confidence in the management team. They've come to trust we're going to do what we say."