



## Business Description:

**Syngenta AG** is a world leading agribusiness operating in the crop protection, seeds market as well as lawn and garden markets. Crop protection chemicals include herbicides, insecticides, fungicides and seed treatments to control weeds, insects and diseases in crops, and are essential inputs enabling growers around the world to improve agricultural productivity and food quality. In the seeds market, Syngenta operates in the high value commercial sectors of field crops (including corn, oilseeds, cereals and sugar beet) and vegetables. The Lawn and Garden business provides professional growers and consumers with flowers, turf, landscape and professional pest management products. Syngenta employs over 28,000 people in about 90 countries and is headquartered in Basel, Switzerland.

## Overview and Investment Thesis:

- **Syngenta** is a large global agribusiness, leading the crop protection sector and claiming a leadership position in the seeds business segment.
- **The Crop Protection business** manufactures and distributes selective and non-selective herbicides, fungicides, insecticides, seed care products and other crop protection.
- **The Seeds business deals in corn and soybean**, diverse field crops (sugar beet, sunflower, cotton, etc.), vegetables as well as lawn and garden products. An emphasis is being put on the development of enzymes and traits with the potential to enhance agronomic, nutritional and biofuel properties of plants.
- **Secular growth trends in food consumption point towards an increasing need for agricultural commodities**; given the limited availability of agricultural land, significant productivity increases are needed and can only be accomplished by incorporating high quality seeds, appropriate amounts of fertilizer and crop protection products into the technological flow. Syngenta is ideally positioned to address the opportunities in this market.
- **Through its leadership** position in various areas of the crop protection market, Syngenta is capable to command premium pricing and is a pricing leader in the industry. Such ability is a highly desirable feature in a potentially inflationary environment.
- **The strong revenue growth** coupled with strong operating income has led to strong Return on Equity (ROE) over the last 4 years. ROE is expected to grow 15% over the next 3 years.
- **Syngenta has proven the strength** of its product portfolio and marketing capabilities by maintaining its global aggregate market share of 32% over the last 4 years.

- **Syngenta is committed to innovation and is investing roughly US\$1.4 billion** a year in Research and Development, representing about 9% of revenues; focuses on developing core competencies in biotechnology, regulatory, product safety and global trialing capability. The seeds product pipeline is very promising with significant progress in the highly competitive market of corn and soybean seeds and continuing leadership in sugar beet, sunflower, sweet corn, vegetables and flowers. Upcoming products in the pipeline include Seguris, Vibrance, Clariva, Elatus, Fortenza and Acuron which are expected to add US\$700 million in peak sales in total.
- **Good stewardship of shareholders' interests has led to the successful integration of the two major agribusinesses** (Novartis International AG and Zeneca Group PLC) at the turn of the century, delivering on the promise of major cost savings. Since then a large number of successful products have been rolled out and leadership positions have been secured in key segments of the seeds market. All along the Company has preserved a robust balance sheet with conservative levels of debt (net debt to common equity around 27%) and has returned value to shareholders through dividends and share buy-backs.
- **Syngenta announced in February 2014 that it is targeting savings of US\$1 billion** by 2018 through an Accelerating Operational Leverage program. The program's aim is to optimize the cost structure of the company within the framework of the corporate strategy in order to attain industry-leading efficiency.

## Industry Growth Drivers/Trends:

- In our view, the industry growth fundamentals are robust and point towards a steady increase in demand in the long run.
- The United Nations estimates that by 2030, the world will need 30% more fresh water and 50% more energy; by 2050, we will need 70% more food.
- The world population is expected to grow by 2 billion by 2050. This larger population will demand more meat and dairy products within emerging markets.
- A Goldman Sachs study estimates that by 2030 the number of people earning between US\$6,000 and US\$30,000 will expand by 2 billion. The growing middle class will demand a higher calorie and increased protein diet. These higher food demands will need to be met by yielding more food per acre.
- The global crop science market (crop protection and seeds market combined) has experienced sustained growth reaching US\$49 billion for the crop protection market and US\$46 billion for the seeds market in 2012.
- The seeds market has grown almost 90% since 2000. 60% of the seeds market is composed of conventional seed products and 40% of the market is composed of genetically modified seed products.





## Competitive Advantages:

- Syngenta is a diversified agribusiness company, with significant presence and leading brands in all seeds and crop protection areas and operations in over 90 countries.
- Syngenta has made significant progress in markets outside of North America. More than 50% of sales are derived from emerging markets as of fiscal year end 2014. The Europe, Africa and the Middle East segment's sales are up 11%, the Asia Pacific segment's sales are up 10% and the Latin America segment's sales are up 9%.
- Syngenta offers a broad portfolio of products to its emerging markets customers where there is significant opportunity for improving yield gaps (because of under utilization of agricultural technology) between those that are achieved in developed markets.

## Competitors:

- Crop Protection: Bayer AG, BASF SE, DuPont, Dow Chemical Co., ADAMA Agricultural Solutions Ltd., and Nufarm Limited.
- Seeds Markets: Monsanto Company, DuPont, and Bayer AG.

## Customers:

- The bargaining power of the end users is relatively limited depending on the size of the farm. Wholesalers' power is also relatively limited as Syngenta cancelled most exclusivity agreements previously held with Novartis International AG and Zeneca Group PLC.
- Depending on the crop, its protection expenditure accounts for 10-15% of the costs, i.e. lower than seeds and fuel; one way of looking at this consumer cost is as 'insurance' for the crop, which becomes increasingly valuable with the amount of inputs invested (seeds, fuel, fertilizer) and the price of the agricultural output.

## Barriers to Entry:

- **Regulatory barriers:** Both crop protection and seeds markets are heavily regulated, each crop and use needs to be individually approved for each country. Half of the off-patent active ingredients do not have generic equivalents as it is not economically feasible to go through the approval process in such a fragmented market.
- **Economies of scale:** The formulation of agrochemical products is only efficient on high scale, given the competitiveness in the marketplace, new entrants would most likely be deterred from investing in production capacities.
- **Initial capital outlays:** Product development cycle, while shorter than for pharmaceutical products, lasts 5 to 8 years and requires significant capital.

## Officers and Directors:

- **Leadership team:** Non-Executive Independent Chairman of the Board, Michel Demare; Chief Executive Officer, Michael Mack; Chief Financial Officer, John Ramsay; Head of Business Development, Robert Berendes; Chief Operating Officer, John Atkin; Chief Operating Officer, Davor Pisk.

## Corporate Governance:

- 10 member board – 9 members are independent and the functions of Chairman and Managing Director are separated.
- In 2013, through a foundation for sustainable agriculture, Syngenta made US\$21 million in direct community investments that supported locally-tailored initiatives to address environmental issues, improve access to technology, increase health and nutritional awareness, and enhance science and education.
- Syngenta has been a part of the FTSE4Good Index since 2005. This environmental, social and governance (ESG) index is used by socially responsible investment investors and stakeholder groups.
- Syngenta also reports greenhouse gas emissions and water use through the Climate Disclosure Project. Syngenta's score in this climate change program increased from 84% in 2012 to 91% in 2013.
- The compensation of the members of the executive committee is just under 1% of the company's operating earnings.

## Ownership:

- Significant investors as at February 17, 2015 include: Blackrock Inc. 5.0%, Capital Research Global Investor 4.0%, The Bank of New York Mellon Corp. 3.4%, Harbour Capital Advisors Inc. 2.7%, Vanguard Group Inc. 2.3%, and Norges Bank 2.2%.

## Capital Allocation/Uses:

- Syngenta has proved to be a good steward of shareholders capital by substantially increasing earnings while preserving a solid balance sheet and delivering progressively increasing dividends.
- For 2014, the Company generated US\$1,931 million of cash flow from operating activities, up 59% over the previous year's level and free cash flow before acquisitions of US\$1,200 million.
- US\$1,189 million was returned to shareholders in 2014 as both dividends and share repurchases.
- 2014 dividends of US\$11.25 per common share is 12% higher than for 2013 (US\$10.00 in 2013) and yields 3.4%.
- The company repaid EUR 500 million of interest bearing debt and borrowed EUR 750 million and CHF 750 million during 2014, ending the year with US\$2,423 million of net debt, which equates to a net debt to common equity ratio of 27.3%.
- Syngenta spent US\$679 million on capital expenditures in 2013, part of which went to support ongoing initiatives to install efficient new production and processing capacity. Furthermore, lean initiatives at processing sites significantly increased capacity and market responsiveness while reducing costs.



| <b>Business Segments (US\$ millions, years ended December 31)</b>           |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
|   | 2010   | 2011   | 2012   | 2013   | CAGR*  |
| <b>Product Line Sales US\$ Millions</b>                                     |        |        |        |        |        |
| Selective herbicides  | 2,308  | 2,617  | 2,939  | 3,051  | 10%    |
| Non-selective herbicides  | 987    | 1,117  | 1,246  | 1,545  | 16%    |
| Fungicides  | 2,662  | 2,998  | 3,044  | 3,035  | 4%     |
| Insecticides  | 1,475  | 1,790  | 1,841  | 1,912  | 9%     |
| Seed care   | 838    | 1,018  | 1,107  | 1,228  | 14%    |
| Other crop protection   | 177    | 137    | 141    | 152    | -5%    |
| Total Crop Protection   | 8,447  | 9,677  | 10,318 | 10,923 | 9%     |
| Corn & soybean  | 1,292  | 1,471  | 1,836  | 1,654  | 9%     |
| Diverse field crops   | 524    | 676    | 719    | 842    | 17%    |
| Vegetables  | 663    | 703    | 682    | 708    | 2%     |
| Total Seeds   | 2,479  | 2,850  | 3,237  | 3,204  | 9%     |
| Other   | (64)   | (80)   | (110)  | (130)  | n/a    |
| Lawn and Garden   | 779    | 821    | 757    | 691    | -4%    |
| Group sales   | 11,641 | 13,268 | 14,202 | 14,688 | 8%     |
| <b>Crop Protection Sales by Region</b>                                      |        |        |        |        |        |
|   | 2010   | 2011   | 2012   | 2013   | CAGR*  |
| Europe, Africa and Middle East  | 2,569  | 2,958  | 2,910  | 3,033  | 6%     |
| North America   | 1,940  | 2,158  | 2,577  | 2,762  | 12%    |
| Latin America   | 2,466  | 2,907  | 3,261  | 3,499  | 12%    |
| Asia Pacific  | 1,472  | 1,654  | 1,570  | 1,629  | 3%     |
| Total   | 8,447  | 9,677  | 10,318 | 10,923 | 9%     |
| <b>Seed Sales by Region</b>   |        |        |        |        |        |
|   | 2010   | 2011   | 2012   | 2013   | CAGR*  |
| Europe, Africa and Middle East  | 877    | 1,063  | 1,101  | 1,232  | 12%    |
| North America   | 1,060  | 1,142  | 1,398  | 1,140  | 2%     |
| Latin America   | 304    | 409    | 479    | 521    | 20%    |
| Asia Pacific  | 238    | 236    | 259    | 311    | 9%     |
| Total   | 2,479  | 2,850  | 3,237  | 3,204  | 9%     |
| <b>Financial Statement Summary (US\$ millions, years ended December 31)</b> |        |        |        |        |        |
|   | 2010   | 2011   | 2012   | 2013   | 2014   |
| <b>Income Statement</b>   |        |        |        |        |        |
| Total Revenue   | 11,641 | 13,268 | 14,202 | 14,688 | 15,134 |
| Operating Income  | 1,793  | 2,051  | 2,256  | 2,086  | 2,105  |
| Net Income, continuing ops  | 1,533  | 1,790  | 2,032  | 1,790  | 1,790  |
| Fully Diluted EPS, continuing ops   | 16.44  | 19.36  | 22.03  | 19.3   | 19.42  |
| Return on Equity  | 22.21% | 23.86% | 23.13% | 18.83% | 20.10% |
| <b>Balance Sheet</b>  |        |        |        |        |        |
| Net Debt  | 1,473  | 1,135  | 1,706  | 2,265  | 2,423  |
| Common Equity   | 7,439  | 7,494  | 8,774  | 9,491  | 8,889  |
| Net Debt: Common Equity   | 19.80% | 15.15% | 19.44% | 23.86% | 27.26% |
| <b>Profitability Ratios and Figures</b>                                     |        |        |        |        |        |
| Operating Margin  | 16.92% | 17.31% | 17.75% | 15.42% | 15.27% |
| Interest Coverage   | 10.87  | 10.85  | 13.82  | 8.95   | 8.25   |
| Return on Equity, continuing ops  | 22.21% | 23.86% | 23.13% | 18.83% | 20.10% |
| S&P Credit Rating   | A      | A      | A      | A      | A+     |



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\*CAGR - Compound Annual Growth Rate

Sourced from Thomson Reuters and Company Reports

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