Agria Corporation

Fiscal Year 2016 Results Conference Call

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CORPORATE PARTICIPANTS

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Kean Seng U, *Head of Corporate and Legal Affairs*

CONFERENCE CALL PARTICIPANTS

Rals Beckalr, *private investor*

Gerry Sweeney, *Roth Capital*

Michael Krupp, *KIT Financial*

Ian Corydon, *B. Riley & Company*

PRESENTATION

Operator:

Good day and welcome to Agria Corporation's Fiscal Year 2016 Results Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Kean Seng U, Head of Corporate and Legal Affairs. You may begin.

Kean Seng U:

Thank you, Amy. Good day everyone. We are pleased that you are joining us for Agria Corporation's fiscal year 2016 earnings conference call. Speaking on today's call is our Chief Financial Officer, John Fulton. We both will be available during the Q&A session to address your questions.

The earnings presentation includes a slide deck. You can download it from the Investor Relations section of our website, www.agriacorp.com. We will prompt you when we advance to each slide.

Before we begin, I would like to refer you to the Safe Harbor statement shown on Slide 1. This call will contain certain statements that address operating results, performance, events or developments that we expect or anticipate will occur in the future. We base the forward-looking statements on our current expectations that will involve a number of risks, uncertainties and contingencies, many of which are beyond our control and which may cause actual results to differ materially from those anticipated. The risks and other factors affecting our operations are set forth in the Company's Form 20-F and 6-K filings filed with the SEC. Unless required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Let me mention one other item. First, our accounting presentation adheres to IFRS standards and we present our results in US dollars; however, we transact all over the world in many currencies, most notably the New Zealand dollar, but also the Australian dollar, Chinese RMB, and various South American currencies. As such, exchange rate fluctuations can affect our results, sometimes meaningfully. We will present our IFRS results and in addition a pro forma currency analysis. This should assist you in understanding the underlying economics of the business. The appendix of the slide deck has reconciliation tables that provide more detail on our constant currency presentation. Following our prepared remarks, you will have the opportunity to ask questions.

I would like now to turn the call over to John Fulton, our Chief Financial Officer. John?

John Fulton:

Thank you, Kean Seng, and thank you everyone. Good morning from New Zealand. Thank you for dialing into today's call. Agria has completed an excellent year despite challenging trading conditions in certain markets, notably in dairy. Before I address the numbers, I want to give you (inaudible).

Operator:

Please stand by as we reconnect our speaker.

John Fulton:

I'm sorry everyone, hopefully can hear—have I joined the call again? Can you hear me?

Operator:

Absolutely sir, you are reconnected. Thank you so much.

John Fulton:

Okay, I apologize everyone for dropping off. I'll just start where I left off.

Before I address the numbers, I want to give you the context in which we achieved our results, starting on Slide 3. Our performance was ahead of our original expectations for the year, and in fact our main subsidiary, PGG Wrightson, as I said before, has raised its guidance twice over the last few months. We hit our stretch targets despite a very challenging agricultural environment in our main markets.

In New Zealand, farm revenue was down and farmer spending declined. In particular, global milk prices were down substantially as supply increased due to Europe removing quotas. In Uruguay, massive flooding in April disrupted the farm economy, with much of the soybean crop lost. Uruguay is our largest market in South America.

Despite these conditions, we thrived in 2016. Although reported revenue was down in local currency, we held our revenue flat. We had solid performance in most business units, offsetting the hardest hit which was (inaudible).

Operator:

Again, pardon the interruption while we do reconnect with our speaker. Just another quick moment while we are rejoining our speaker. Again, we appreciate your patience. We apologize for the interruption.

We do appreciate your patience and apologize for the interruption.

Thank you again for your patience.

Kean Seng U:

I think, Amy, while you're trying to connect him, maybe John can come on the call to deal with Q&A. Maybe I can walk the call through the script.

Operator:

Thank you so much.

Kean Seng U:

Okay. Okay, I think where John stopped just now, he mentioned that we achieved our stretch target despite the very challenging ag environment in our main markets. In New Zealand, farm revenue was down and farmer spending declined. In particular, global milk prices are down substantially as supply increases due to Europe removing quotas. In Uruguay, massive flooding in April disrupted the farm economy, with much of the soybean crop lost. Uruguay is our largest market in South America.

Despite these conditions, we thrived in 2016. Although reported revenue was down in local currencies, we held our revenue flat. We had solid performance in most business units, offsetting the hardest hit, which was livestock. Operating profit at the subsidiary level was strong. Most notably, we can see the impact of the restructuring actions we initiated three years ago. New Management at PGG Wrightson, a refreshed strategy, re-engaged employees and new marketing and productivity programs across the Company enabled us to weather a poor macro environment.

The restructuring actions were the realizations of a strategy to diversify our ag platform, especially in New Zealand. Southern hemisphere farmers now recognize us as a leading agricultural services provider across a wide spectrum of beef, dairy, sheep, and also horticulture and viticulture. New Zealand in particular is seeing outstanding success in the latter two markets. The country is developing a globally recognized wine industry and (inaudible) is gaining popularity around the world. Both of these industries, PGW and our Company actually dominate the industries. Our position as the leader in supplying the inputs and services that help these products harness us as a powerful growth engine within New Zealand agriculture. We believe this positioning can help us weather what we expect to be challenging market conditions in fiscal 2017.

Veal prices are still low and global beef prices are down from 10% to 30% over this time last year. Dairy, farmers especially in New Zealand are facing yet another year of potential losses. We do not expect general ag spending to increase this year. As in 2016, we will focus on running our businesses as efficiently as possible with a focus on profitability.

Now, let me turn to the specifics of our operating highlights, financial results and outlook. As I present the results, keep in mind that all figures are for the full fiscal year 2016, which ended on June 30. Unless I specify otherwise, all comparisons are for the full year fiscal 2016, unless I note otherwise. We focus on full-year results rather than half-years or quarters because full-year results best represent the full seasonal cycle of our businesses. As well, we will present both official IFRS figures and an analysis that holds constant the US dollar to New Zealand dollar exchange rate. The constant currency presentation by its nature is only an estimate, but it is a relative good proxy for the actual economics of our results. Furthermore, it is the way we analyze our business internally.

So, let us move on to our—

John Fulton:

Kean Seng?

Kean Seng U:

Yes? Is that John?

John Fulton:

Do you want me to take it from here?

Kean Seng U:

Yes.

John Fulton:

Okay, apologies everyone. It's some infrastructure issues here in New Zealand. So, let us move onto results, starting on Slide 4. I'm assuming you can all hear me. Gary?

Kean Seng U:

We can hear you.

John Fulton:

Okay, sounds good. Thanks. Okay, I'll continue on.

Revenue of $808 million was down 14.5%. All three business segments - seed and grain, crop protection, and rural services - had declining revenue which translated to US dollars. On a constant currency basis, total revenue was essentially flat, down only 1.4%. Removing the foreign exchange effect, seed and grain grew modestly, crop protection was down just 2%, and rural services declined 4% due to weakness in livestock. I will circle back and give more detail on each segment shortly.

Gross profit of $222 million was down 11.4% and represented a gross margin of 27.5%. On a constant currency basis, gross profit was up 2.2%. Gross margin improved 97 basis points from 2015. Operating profit was $28 million, down 32.4%. On a constant currency basis, it was down 17.6%. Although our gross margin improved, we incurred higher local currency operating expenses. The higher local currency operating expenses reflected investment in future growth. In particular, we spent more on employees due to higher headcount to drive growth, and more on research and development. Depreciation and amortization was higher too, which of course is a non-cash expense.

The Company's net income was $7.9 million, down 46%. On a constant currency basis, it was down 20.2%. The bottom line was lower due to the lower operating income and higher tax interest expense, offset by a reduced tax burden. Some corrections to prior year returns resulted in a lower tax rate this year. Please note that this lower than usual tax rate will not be on a recurring basis.

After allocating the minority share of the earnings of our subsidiary, PGG Wrightson, the equity owners of Agria Corporation recorded a loss of $8 million. This translates into a loss per share of $0.07 and a loss per ADS of $0.14. On a constant currency basis, the Agria loss is $6.7 million or $0.06 per share and $0.12 per ADS. I will return to explain the corporate accounting in more detail in a minute, but first I want to dive into our results by segment.

We have three business segments. The largest is Crop Protection, Nutrients and Merchandise, which houses our retail operations and constitutes 41% of revenue. The second largest is Seed and Grain, which sells food and forage seeds across New Zealand, Australia, South America and China. Seed and Grain is 34% of our sales. Finally, we have Rural Services, which offers a variety of services but is driven by our livestock operation. Rural Services is 25% of our revenue.

Please turn to Slide 5. Crop Protection had revenue of $328 million, down 14.8%, and operating profit of $21 million, down 4.4%. On a constant currency basis, revenue was down 1.6% and operating profit was up 10.5%. Operating margin was 6.3%, which improved by 68 points. This segment consists mainly of our retail operations. We have over 100 retail stores across New Zealand and Uruguay that use our PGG Wrightson, Fruitfed supplies, and Agrocentro brands. Operating profit increased despite the flat revenue due to a shift by dairy farmers to higher value products such as shed chemicals and stock feed. Beef and horticulture-related products also sold well, especially at the Fruitfed stores. Finally, we believe we are taking market share across New Zealand. As you recall, we installed new inventory management and point-of-sale systems a couple of years back, as well as implementing a training program to improve customer interaction and technical selling. We are seeing the impact of those initiatives now as we are able to supplant lower margin commodity sales with higher value products that improve farmer efficiency and profitability.

Moving to Slide 6, Seed and Grain revenue of $284 million was down 12.1%. On a constant currency basis, it was slightly up 5.8%. Southern hemisphere sales made by our PGW subsidiary were flat while sales in our China seed subsidiary, (inaudible), grew 17% to $15.4 million. Operating profit of this segment was $25 million, down 15.2%. On a constant currency basis, the operating profit was slightly down by 0.7%. Operating margin was 8.6%, similar (inaudible).

Kean Seng U:

I think we may have lost the connection again. Maybe I'll continue at this point.

Seed millet and merchandise this storage year was about profitability. Although revenue did not grow due to market conditions, we focused on driving our mix to more profitable proprietary seeds. As a result, the southern hemisphere Seed operating profit was down 5.9% but up 8.6% in constant currency. Australia was our strongest region while New Zealand sales were good, both domestically and in exports.

On the next slide, in Australia, forage seed sales to the sheep and beef markets drove our growth. Trading conditions in those markets were good and the weather cooperated this year very well. You may recall we had bad weather in Australia in the past season and two years ago, affecting our sales. Growth in New Zealand was mainly in fodder beef, which is a popular winter seed crop. The export strength was mainly to Chile, the US and South Africa. New marketing campaigns drove demand in those countries.

On the next slide, moving to the Rural Services segment, we generated revenue of $195.7 million, down 17.3% but down only 4.4% on a constant currency basis. Livestock, which was exceptionally soft this year, was down 27% to $49 million of revenue, but down 15.7% on a constant currency basis. The balance of Rural Services sales was down 13.4% but on a constant currency basis it was stable compared to last year. Importantly, we sustained profitability within this group. Operating profit of $14.9 million was down 29% but on a constant currency basis, it was down only 13% and was represented by an operating margin of 7.6%.

The segment results relies some important trends, in particular despite the revenue decline, livestock posted an operating profit of $9.8 million, down 15% as compared—as imported but only 1.9% on a constant currency basis. Livestock operating margin actually improved to 20% compared to 17% last year; meanwhile, the rest of Rural Services recorded an operating profit decline of 38.6%, or 39% on a constant currency basis.

The New Zealand option and agency business on the next slide was good due to robust beef markets, which was offset by lower prices in dairy and sheep. We expanded dairy grazing as well as our new line of livestock fattening feed products. In contrast, live export was down as dairy heifers faced reduced international demand. Live export was responsible for most of the revenue decline in this business unit. Outside of livestock, we held earnings stable and real estate is growing. Notably, real estate strength is in lifestyle and residential farming estates. Dairy farm sales are sluggish, not surprisingly. Water and irrigation faced a tough year, also due to dairy. Fewer dairy conversions reduced the demand for cheaper irrigators.

Now, let us quickly review the balance sheet and then we will cover the corporate and minority accounting. Foreign exchange does not affect the currency (inaudible) because they are snapshots, but keep in mind that it does influence the change over the course of the year. Most balance sheets were not meaningfully affected by translation, but where they were, I will note it and give constant currency comparison as well.

At Page 8, cash and cash equivalents were $8.3 million. Over the course of the year, cash was down $1.5 million or 16%. Trade receivables of $155 million were up 2.5% but down 2% on a constant currency basis. Inventory of $182.5 million was up 1.1%, down 3% on a constant currency basis. We had a couple of significant uses of cash within the current assets. Prepayments were up 69% to $38.5 million as a result of normal operations. Amounts due from related parties were $25.8 million, a $25 million increase. This amount relates to a pending transaction with one of our financing partners, which we intended to implement in order to simplify our shareholding and capital structure.

Specifically, we intend to acquire the position in Agria Asia Investments, which is currently held by one of our partners, New Hope International. Agria Asia Investments is the vehicle through which we, together with our partner (inaudible) in PGW. The transaction is still subject to New Zealand government regulatory process; nonetheless, we have prefunded the transaction with a payment booked at the current asset.

Our total assets were $547 million, up 9.7% or 6% on a constant currency basis. Importantly, we continue to invest for growth, especially in South America. We are expanding our presence in Uruguay with investment in Agrocentro retail and new office space and a logistics center in Montevideo, Uruguay. In New Zealand, we increased our capacity at our (inaudible) facility, enabling us to address better maize and sweet corn markets.

John Fulton:

Okay Kean Seng, I've rejoined. I'm so sorry, everyone. I'll pick up here, if you like.

Basically, we reduced current debt and payables. Current debt was $15 million and payables and other accrued expenses were $222 million, down 7% and up 10% respectively. Long-term debt was $83 million, up 36%. PGW carries approximately 74% of our debt denominated in New Zealand dollars. Netting out the balance sheet changes, the debt increases and cash usage funded the prepayments and New Hope transaction. Those were intentional capital allocation decisions. Operationally, the balance sheet improved during the year.

Now, I want to return to the analysis of Agria Corporation on an unconsolidated basis. This is a non-IFRS analysis that we are presenting in order for you to understand the cash flow economics of the security you own. We intend the information to clarify how PGG Wrightson financials roll up into the corporate entity.

First, keep in mind the capital structure of our enterprise, shown on Slide 9, Agria Corporation is a Cayman Island entity that owns 80.81% of Agria Investments Asia. Agria Investments Asia in turn is the Hong Kong entity that owns 100% of Agria Singapore, and Agria Singapore in turn owns 50.22% of PGG Wrightson. The balance of PGG Wrightson shares trade publicly on the New Zealand Stock Exchange. This structure nets out to Agria Corporation being entitled to 40.58% of the economics of PGG Wrightson. Based on the recent trading price of PGW shares in New Zealand, as well as the current US-New Zealand dollar exchange rate, the value of Agria's position in PGW is worth around US$2.09 per Agria ADS.

Also, keep in mind that Agria is not a passive holding company. Our executives are on the Board of PGW and direct their strategy and operations on a daily basis. We all spend a significant amount of time in New Zealand.

Please turn to Slide 10. Agria Corporation has two main sources of income. The first is the dividend from PGW. During fiscal 2016, all shareholders of PGW received two dividend payments. We collected US$9.5 million in cash from PGW dividends. Our second source is our China seeds business, NKY. We owned this business before taking control of PGW. Although it is a small company relative to our current size, it is strategically important. We intend to use NKY as the platform for PGW products to enter (inaudible).

Kean Seng U:

Kean Seng here. Apologies for this technical issues here.

Anyways, let me continue. We intend to use NKY as the platform for PGW's products and services as we enter and expand the market potential in China. In fiscal year 2016, the China seed business recorded revenue of $15.4 million with a gross profit of $2.9 million and with operating expenses of $5.4 million. The resulting operating loss of $2.5 million reflects a challenging year for us. Cold weather hurt our seed production, resulting in lower yields and reduced quality. This pressured our selling prices and increased our costs. The operating loss does include a $1.8 million inventory provision. In fiscal 2017 thus far, the weather is cooperating and if this continues, we should return to our normal profitable operations in China. Furthermore, despite near term challenges, NKY is critically important to our longer term strategies of accessing the market in China with PGW's products and services and technology.

Other expenses carried by Agria Corporation in fiscal 2016 include general and administrative expense of $6.3 million and legal expense of $4.3 million. The legal expense relates to compliance and corporate activities. Agria Corporation had interest expense of $6.3 million, of which the China seed business unit incurred $1.2 million. Going forward, we expect the run rate G&A expense for Agria Corporation to be in a range of $4 million to $5 million a year, or approximately $1 million to $1.5 million per quarter.

Let me summarize Agria Corporation's balance sheet from an economics perspective. I will give you the latest information (inaudible) as of yesterday. As I mentioned, the fair market value of our interest in PGW is $160 million, based on the publicly traded price and relevant foreign exchange rate between US and New Zealand dollars. The NKY China seed business has value, of course, but since the fair market value of this business is unknown, we leave it out of the calculation for now.

Finally, as I mentioned earlier, we have prefunded the purchase of New Hope stake in Agria Asia Investments, subject of course to the New Zealand regulatory approval. Agria Asia Investments is the vehicle through which we, together with our partner, hold our interest controlling stake of PGG Wrightson New Zealand. New Hope owns the equivalent of 11.5% of PGG Wrightson via Agria Asia Investments, with a current fair market value of $17 million. So all in, Agria Corporation owns assets worth no less than $132 million. On the other hand of the ledger, we have total debt to corporate and NKY seeds of $44.5

million, therefore Agria Corporation effectively holds a net asset value of approximately $88.4 million (inaudible) basis.

I have the script but I don't have the reference to the PGG pages. The next refers to our fair market—next slide refers to our fair market value analysis of our balance sheet. With 55.4 million ADS equivalent outstanding, per ADS net asset value is approximately $1.16. Our ADS closing price last night was $0.85. We suspect value-oriented investors may recognize Agria ADS as representing outstanding value.

Operator, now we can open the call to questions.

Operator:

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

Kean Seng U:

Amy, can I ask whether John is back online?

Operator:

He has not returned as of yet.

Kean Seng U:

Okay, not a problem.

Operator:

Again, that is star, one to ask a question. Again, star, one to ask a question. Again, one moment. Again, star, one to ask a question.

Our first question is from Rals Beckalr. Please go ahead, sir.

Rals Beckalr:

Yes, hello. It's Rals Beckalr from Germany. I have a question about the land use rights. During fiscal year 2013, you made a large write-off of US$60 million, the land use rights, so I don't understand because as far as I know, you have used this land for sheep breeding, and sheep demand is growing in China, so therefore I cannot understand why this land is worth nothing. So, I can imagine that you can sell it to a sheep farmer, and is it possible that you will do that in the next future?

Kean Seng U:

Thank you. I'll take that question. That is a very good question, because if you recall, in 2007 the Agria Corporation when we went IPO, the core piece of Agria Corporation at that time was in sheep breeding. Agria Corporation at that time had its own hybrid variety of mountain goats, as well as the few corns that we had marketing rights from the Research Institute in China. So, over the course of the year, obviously apart from selling the—you know, the business of selling the goat semen, there was obviously an expansion plan to actually grow and expand our own herds of goats, so I think that the reason underlying the acquisition of those land parcels from the collective in rural China.

But as you recall, as the business within China became a bit more challenging due to the difficulty of us at that time of managing the—you know, domestic Chinese management team, and that led to some class actions in 2008 that finally was settled only in 2013. We had since then disposed of our business in China relating to the business of goat semen and potentially of becoming sheep farmers, sheep or goat farmers ourselves, so what we did was we went on a global M&A search with the help of PriceWaterhouse that led us to investment in PGG Wrightson, so I guess there was a transformation in terms of business case, in terms of our technology and capacity. So, from 2013 and—from 2009 to 2013, obviously there was a shift in terms of business of Agria.

We are now basically a forage technology seed company. There was some attempt in terms of trial plantation of how best we can realize the economic use of those land parcels. At present, I think in those regions, it became apparent to us after some trial plantation of our forage seed variety in those areas, it became quite challenging, so both in terms of the requirement in terms of cap ex investment for irrigation systems and the suitability over large field forage farming in those areas, so a decision was taken in 2013 to write it off.

So at present, although as part of the transaction to divest the historical business back to the previous management team in China, we retained the land, but as far as economic use of the land currently, the Board has taken the view that based on our existing PGG use of technology and based on our focus in terms of business, in our core business, we have no present use and a decision was taken in 2013 to write that off. But of course, as we retained ownership of those lands, in some future time obviously if there is an opportunity to realize that value through sales to third parties, obviously this is—potentially could be a windfall to the Company. But, this is not where we see the current growth strategy of Agria Corporation.

Rals Beckalr:

Yes, but $57 million for land use rights is a large asset, and you could—if you can make some money out of it, it would be good for the Company. My next question would be the share buyback program. So, do you have make any use of the program until today?

Kean Seng U:

I will take that question as well. Our Board has mandated a share buyback program, so at some point in time obviously we will definitely implement that program as we have done so in the past. I think you will notice from the presentation that in terms of allocation and utilization of our cash resources, what we have done was actually—obviously, as you have noticed that we have spent $25.8 million buying over—you know, one of the critical part of the controlling stake of New Hope, together with us in Agria Asia Investments, so that is the process that will be subject to New Zealand regulatory process to complete. So, I guess at the next opportune time, I'm sure the Board will look at having—having mandated the share buyback program. I think at some point in time, that will be the next logical step to consider.

Operator:

We'll take our next question from Gerry Sweeney, Gerry Sweeney from Roth Capital.

Gerry Sweeney:

Just a question on the New Hope transaction. It sounds like that transaction is underway. Could you give a little bit more detail on the timing or potential timing as to when it's going to close? Then I apologize - we were on and off the call. How are you going to fund this transaction? Did you already have financing lined up? If you can just dig into that for a minute or two.

Kean Seng U:

I'll take that question as well. In terms of New Hope transaction, obviously it is a critical part to our strategy because New Hope, together with us and the New Zealand partners, collectively we together held 50.22%, and out of this collective ownership, New Hope has an interest of approximately 14%, 15%. We have actually not only lined up the financing to buy out New Hope, we have actually prefunded the acquisition of that stake. What we cannot actually advise in terms of timing is that the regulatory approval for New Zealand in terms of—and obviously from Overseas Investment Office is not really—they don't have specific timelines. That is a process that is ongoing. I guess at some point in time when it becomes clearer, we will advise the market. So, that part of it, start that the financing is in place, we have actually paid for that, but in terms of acquiring the ownership, it is something that will be subject to regulatory approval.

Also, the other thing to bear in mind is that this is an important step towards Agria simplifying the shareholding structure of PGW, and the other regulatory approval related to this, which is also the reason why we cannot currently be certain of the timing, is that apart from New Zealand Overseas Investment Office approval, this acquisition of interest will also be subject to the Takeovers Panel process in New Zealand. So again, as and when we actually have more certainty around the regulatory process, we'll come back to the market and advise you.

Gerry Sweeney:

Got it. So, just to confirm, if the transaction goes through, you will own 50.22%, it is prefunded, and we're waiting on the New Zealand Overseas department for approval, there's a couple steps that they have to go through.

Kean Seng U:

Yes. We will hold actually the closer—by which time we're done New Hope, we will hold 50.22% together with our New Zealand partners, which will hold—which will continue to hold about 11%, and unless of course—unless because—unless of course if that process means that we need to complete the New Zealand Takeover process, it could be a completely different scenario because New Zealand—the New Zealand Takeover rules has very low threshold in terms of mandating a full takeover.

Gerry Sweeney:

Got it. I appreciate it, thank you.

Operator:

Again, if you would like to ask a question, please press star, one. We'll take our next question from Michael Krupp at KIT Financial. Please go ahead, sir.

Michael Krupp:

Yes, it's Michael from the United States, in Florida, KIT Financial. On the surface, I'm struggling to understand the financial statements, quite frankly, and I thought I understood them reasonably well up to this point. I was very encouraged in looking at PGW results. When I see the large corporate G&A and other expenses that have been incurred at the Agria level, resulting in an $8 million loss, I look at PGW and it's doing quite well and I look at Agria, when everything is said and done, not doing that well. So, what is your forward guidance to assist us in being encouraged that the results here are really going to begin to demonstrate positivity for Agria and something that we can categorically get our arms around?

Perhaps others understand this better than I do, but I'm really struggling to get the whole picture here. What would you hope by making reporting simpler? I don't understand how PGW, who is worth more, can be brought into the picture here and the Agria value, if PGW shareholders are to get funded out of this, and that's the way this is going, it's very difficult for me to understand how this process is going to take place. Any clarity you can provide to this would be quite helpful.

John Fulton:

Okay Michael, this is John Fulton speaking. I'll take part of this question. When you look at Agria corporate overhead costs, as I mentioned during the call, our going-forward run rate on G&A is around $4 million to $5 million. If you also think about the fact we have holdco debt that was put into place in order to acquire the shares in PGG Wrightson, so for all intents and purposes that could be debt or could be equity, we have elected to have it as debt, and that costs us $5 million of interest costs per year.

If you take out the (inaudible).

Michael Krupp:

Hello?

Operator:

I apologize. It appears that Mr. Fulton has disconnected at this time. Again, we apologize for the interruption. Kean, would you be able to address the remaining question?

Kean Seng U:

Yes, I'll do that. I think there are two processes of looking at this question. I think the first part that I think my colleague John Fulton has alluded to, in terms of ongoing basis, apart from those exceptional expenses items in terms of G&A and legal expenses which were incurred this year, moving forward basis we see a flat $4 million to $5 million G&A expenses. Historically we have incurred a lot of other expenses, including making prepayments to acquire the strategic stake from this New Hope. I think the other—the other process which hopefully over time we can achieve is to simplify the shareholding structure, because at the current—at the current shareholding structure which we use to hold the PGG Wrightson, it's held through intermediate joint venture company with our partner. So, hopefully over time, having taken the first step to acquire the New Hope stake, subject obviously to the New Zealand regulatory process, we can take further steps to make it more—a lot more simple for our shareholders.

Currently in terms of—we can only achieve equity accounting in terms of bringing in the revenues of PGG Wrightson into our P&L, but on the equity accounting basis from profit, we only booked in our equivalent shares of approximately 40.8% of the bottom line. So, when you translate and consolidate our books and minus all the corporate overhead and legal and compliance expenses and corporate activity expenses which we have incurred, obviously that kind of—that does not present a complete picture in terms of the underlying value of Agria, the shareholdings.

I think at today's call, I think earlier on my colleague John has also tried to give a clearer picture in terms of what is the effective sums of the part ownership of Agria shares. I think based on yesterday's trading price and market information, per ADS of Agria shares is equivalent to about $1.60 of underlying asset value. So, I think that's probably the best way we can explain for now until we can achieve clarity and simplicity in terms of shareholding and corporate structure of how we are holding PGG (inaudible) interest.

John Fulton:

I've rejoined, Kean Seng.

Operator:

Our next question is from Ian Corydon with B. Riley & Company. Please go ahead, sir.

Ian Corydon:

Thank you. In the Seed and Grain business, you mentioned in the prepared remarks, you're attempting to drive the mix to more proprietary seeds, which are higher margin. Where does that mix stand today, and what initiatives do you have in place to accomplish that goal?

John Fulton:

Kean Seng, I can take this if you like, assuming my phone doesn't get dropped. The proprietary seed mix in New Zealand is up over 90%, very high uptake, and this is because of the climatic conditions are very well suited (inaudible). When you compare this to countries like Australia, which is lower, around 60% to 70%, the climatic conditions are slightly more challenging in Australia. We're looking across to South America and Uruguay where the uptake is low at this point as we are starting to develop more proprietary seeds and selling this to farmers and also into neighboring countries, and we're also looking at other countries as well to convert them from cheaper low-end commodity seeds and into the higher end, higher margin proprietary seeds.

It's very much—you know, we've used New Zealand as a role model country. We know how to do it. We've done it before. We're rolling this into other countries. South America is obviously one we're working at the moment very successfully, and we're looking very closely now at China as well and other parts of the world.

Ian Corydon:

Okay, great. Then on Rural Services, what needs to happen in the market to get revenues growing again in that segment?

John Fulton:

This is an interesting one. Just a bit of an aside, PGW Rural Services is uniquely diversified, so we cut right across the spectrum of horticulture, viticulture, ag, sheep, beef, dairy. Our competition, our nearest and largest competition is a subsidiary of a milk cooperative, Fonterra, and their focus is purely on dairy. So, what we're seeing now is the ability for us to take market share from RD1, which is our nearest competitor, and it's suffering significantly because of the dairy downturn, and this is where we're starting to really get in and to take market position. We're also able to bring in commodity products and we have our own brands that are growing in popularity and awareness in the marketplace, and this is allowing us to bring in commodity products, repackage it, slightly change it and market it as our own branded product, which is adding to margin and helps our overall position.

Ian Corydon:

That's helpful, thank you.

Operator:

Once again, if you would like to ask a question, please press star, one.

It appears there are no further questions at this time. I would like to turn the conference back to Mr. Fulton for any additional or closing remarks.

John Fulton:

Thank you, Operator. I do sincerely apologize for the calls being dropped, and I hope I get through to the end of this call without being dropped. But before we conclude, I want to summarize the key points of today's call. The most important is this: if you own one Agria ADS, you own two shares of a company that actively controls and benefits from one of the largest and most respected agricultural companies in the southern hemisphere. You own a 40.58% economic interest in that company that is valued at $2.10 per ADS. Netting out the debt and other liabilities of your company, we can reasonably argue that the value of your company is at least $1.60 per ADS.

The second point is that a valuation normally like the one we see today in our ADS price is very rare but explicable. We have very little visibility in the US markets and have done almost no investor relations over the last few years. We've been very busy just basically turning around PGW, and now that it is on a solid foundation, we feel confident about going out and telling our story. For US investors, PGW is a world away, so tracking its progress and relationship to Agria would be a difficult one at best. This is all of course going to change going forward. We will be significantly stepping up our efforts to make sure US investors are fully aware of the success we are achieving in our markets and how they can participate.

The third point is that now with a solid financial foundation, we can concentrate on growth. PGW reported excellent results this year despite a challenging environment. We have outstanding products and services that could assist farmers all over the world. We are established but un-penetrated in Australia, Uruguay and China, so we have a lot of room to grow in that immediate future. Our vision is to develop Agria and PGW from a strong regional player to a globally recognized leader in the agricultural industry. We have the people, we have the products, we have the assets. We have never been more optimistic about the outlook than we are today.

This will conclude the call. I can't believe I've made it to the end almost. We hope to see all of you either in meetings in the US in the near future. Meanwhile, if you have any questions, please do not hesitate to call myself or our investor relations firm, The Blue Shirt Group. Our contact information is in the press release and we welcome your questions and feedback. Have a good day.

Operator?

Operator:

This concludes today's conference. Thank you for your participation. You may now disconnect.