

# ISAGROfocus



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*Dear Shareholders,*

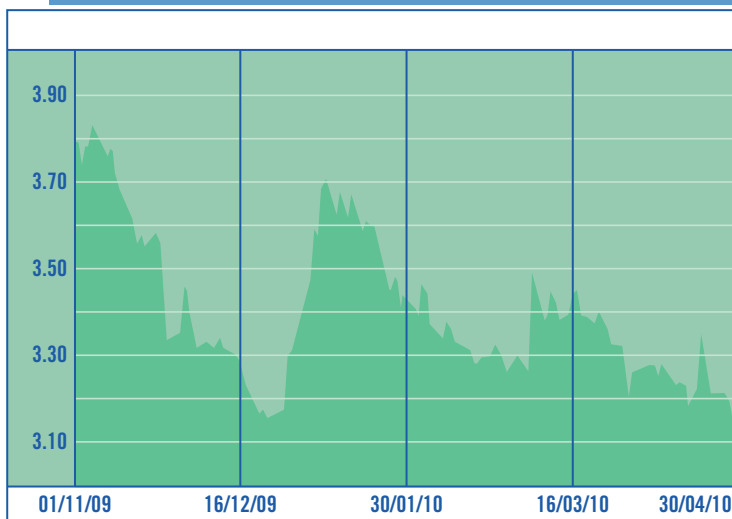
2009 was a difficult year for the world economy and the crop protection sector wasn't spared from this international recession. Isagro had to take great care in dealing with this complex situation, which finally began to show signs of recovery in the last few months. While encouraging signs of recovery give a boost to the entire crop protection sector, an analysis of the Isagro 2009 financial statements confirms the company's capacity to respond to the difficult situation. Revenues were down in line with the market downturn. The decrease in turnover was not due to in-house factors, but to extraordinary events such as the stock reductions by distributors, bureaucratic delays in the registration of own products, and copper price fluctuations. Isagro carried out an extraordinary transaction in order to continue to grow and invest in Research & Development despite the difficult operating environment: disposal of the *Benalaxyl* fungicide, no

longer strategic for our company as it was already being phased out for replacement by a new, recently developed product.

These exceptional events, along with the economic situation, pushed back the achievement of Isagro project results by about two years. The new Business Plan points to a new growth stage in 2011. After 2010, which can be considered a "bridging" year, the new own-product registrations will start to contribute fully to the economic results from 2011, to achieve a turnover of 287 million, EBITDA of 48 million and net profits of 13 million by the end of the plan in 2013. We also believe that debt will be halved and the company will be able to finance its investments from cash generation only by 2011.

The "Isagro Plan" has a solid base and encouraging prospects. Confident in the future, I would like to thank you for taking the time to read this latest issue of Isagro Focus.

Giorgio Basile



### THE VALUE

#### Performance of the share (november 2009 - april 2010)

The Isagro share, listed on the STAR segment of the Italian stock exchange, went through a growth phase from the end of 2009 to mid January, reaching a price of € 3.7. The share then went through a highly volatile period, reflecting the more general market trends, finally falling to € 3.13 on 30 April, the lowest value in 2010. The peak price for this year was € 3.705 recorded on 8 January.

A fluctuating performance that followed a strong recovery in 2009. In fact over the past year, the Isagro share constantly outperformed the STAR basket. After an initial slump, with the share price falling to a minimum price of € 2.46 on 9 March, a bullish phase began, gaining over 70% to reach € 4.29 on 2 June. After a series of fluctuations around the € 4 mark, the price began a gradual slide in September to close the year at € 3.29, gaining almost 30% on the January value.

## Goals for the next three years THE BUSINESS PLAN 2010-2013

**ISAGRO SET OUT ITS GOALS FOR THE NEXT THREE YEARS, STARTING FROM ITS MISSION: TO INVENT, DEVELOP, PRODUCE AND SELL ITS OWN PRODUCTS.**

**THE NEW GROUP BUSINESS PLAN FOR 2010-2013 CONFIRMS THE VALIDITY OF THE ISAGRO PLAN - THE IDEA OF A SMALL GLOBAL PLAYER IN THE CROP PROTECTION MARKET WHICH REPRESENTS THE COMPANY'S DISTINCT POSITIONING.**

Seven years on from the IPO in 2003 we can now take stock of this experience: € 114 million were invested between 2003 and 2009, 67 from own funds and 47 from loans; revenues increased from € 153 to € 193 million. Isagro is now that small global player it planned to be: consolidated sales amount to about € 200 million; the company sells in 80 countries with a strong presence in key markets and bases its development on products deriving from its innovative laboratory research. There has been growth, even though cash flow generation is two years behind the forecasts. There are two reasons for this: authorisation times for certain new products lengthened unexpectedly, and the crop protection sector was not spared the 2009 global recession, in which turnover fell by 6% last year.

Isagro's new business plan is set in this context, providing for a transition period in 2010 when the company will gradually recover from the effects of the crisis, exploiting the recovery of the global market among other things, it will continue to invest in R&D and will put another non-strategic asset on the market to raise funds. This would involve another extraordinary transaction, after the sale of *Benalaxyl* for € 14 million in 2009 – a molecule already undergoing replacement – demonstrated that Isagro's own products are currently greatly undervalued.

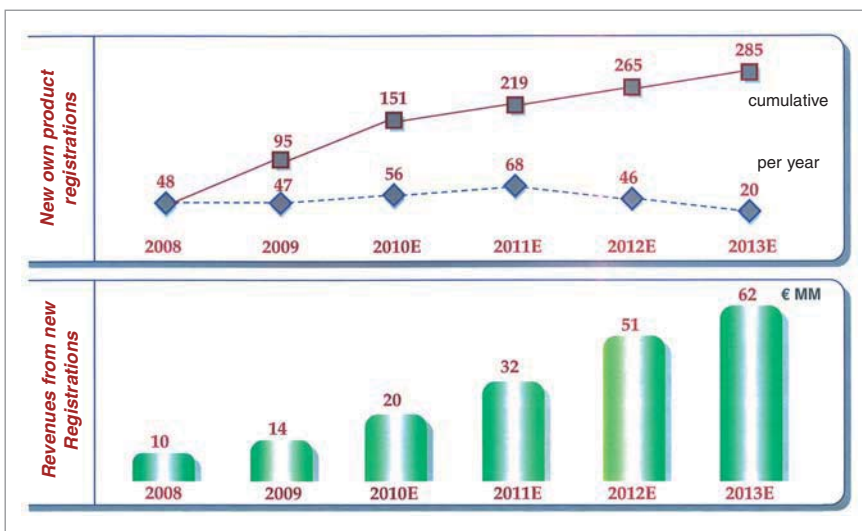
After this 12-month transition period, new registrations (285 in total are planned between 2008 and 2013) will start to produce



results, and sales of Tetraconazole in the United States – currently permitted but subject to restrictions which should be overcome by the end of 2010 – will make their full contribution to revenues.

The beneficial effect on turnover is likely to be gradual: from € 193 million in 2009, to € 211 million this year, € 231 in 2011, € 261 in 2012, the year shareholders expect to again receive a dividend of 10 Eurocents per share, rising to € 287 million in 2013 with a 15 Eurocent dividend. This will mainly be due to the new registrations, whose contribution will gradually increase from the € 14 million revenues last year to € 62 million by the end of the plan, while distribution profits will rise from € 33 to € 59 million. If the average annual increase in revenues is expected to be 10%, the increase in EBITDA should be more than double: with +22% per year, EBITDA is expected to rise from the € 22 million of 2009 to € 48 in 2013, with a clear increase in profitability. The EBITDA margin will rise from 11% in 2009 to 13% this year, then gain by one point per year to reach 17% by the end of the plan.

Net profit is expected to show an even higher growth rate: it is expected to gradually climb from € 0.7 million in 2009 to € 13.2 million in the final year of the business plan. All of which to produce a cash flow generation amounting to € 86.5 million from 2010 to 2013. And it will be the cash flow that will halve the debt-equity ratio. The € 47 million Isagro debt will be progressively reduced from 2011: the industrial plan provides for the debt to be reduced to € 25 million by 2013.



### 2010-13 Estimated financial

Consolidated data - €/millions

	2009	2010 E	2011 E	2012 E	2013 E
<b>193 Results</b>	193	211	231	261	287
<b>22 EBITDA</b>	22	28	33	41	48
<b>0.7 Net Result</b>	0.7	2.4	4.1	8.5	13.2
<b>11.2 Cash-flow</b>	11.2	15.5	15.9	21.6	27.0

### Consolidated Income Statement

€/millions - Prelim.

	2008	2009
<b>Results</b>	213.2	193.6
<b>EBITDA</b>	24.4	21.9
<b>EBIT</b>	16.0	11.6
<b>EBT</b>	2.0	2.5
<b>Net Result</b>	0.1	0.7



## photograms EXTRAORDINARY YEAR, EXTRAORDINARY ACTIONS

**2009 was a difficult year for the global crop protection market, which fell by 6.4%. It was not the fall in consumption by farmers that caused this decline, but the stock reductions by distributors who wanted to use up their stock before placing new orders. In this context, Isagro was also affected by copper price fluctuations and weather conditions not conducive to the use of fungicides in Europe at the beginning of the year.**

However, Isagro benefited this year from the contribution of new registrations of products originating from its own research activities, partially offsetting these events; in fact Isagro completed 47 new registrations in 2009, bringing the total number to 95 when added to the 2008 figure. These contributed € 13.6 million to 2009 turnover.

Therefore the 2009 balance sheet closed with revenues of € 193.6 million, down 9.2% on 2008. EBITDA amounted to € 21.9 million in 2009 compared to € 24.4 million in 2008. Certain extraordinary factors contributed to this figure, represented by income of € 13.6 million (from the sale of *BenalaxyI*) that was absorbed by lower margins of around € 10.3 million, extraordinary provisions of € 4.6 million and by the effects of non-speculative hedging for € 2.9 million. Without these factors, EBITDA would have increased.

During the year, the financial efforts employed to bring all group products to the market increased the fixed capital from € 122 to €130 million, while the debt/equity ratio improved from 1.96 to 1.75. Indebtedness was reduced by € 5 million, decreasing from € 142.5 to € 137 million.



## “ISAGRO IN NUMBERS”

**RUGGERO GAMBINI, 36, HAS A DEGREE IN CORPORATE ECONOMICS FROM THE BOCCONI UNIVERSITY OF MILAN. AFTER INITIAL EXPERIENCE IN A2A HE JOINED ISAGRO, WHERE HE HAS WORKED FOR 10 YEARS IN ROLES OF INCREASING RESPONSIBILITY, INVOLVED IN MANAGEMENT CONTROL, STRATEGIC PLANNING, FINANCE AND EXTRAORDINARY TRANSACTIONS. HE HAS BEEN THE GROUP'S CORPORATE FINANCE AND CONTROL MANAGER SINCE SEPTEMBER 2008, AFTER 2 YEARS SPENT IN BRAZIL AS MANAGER OF THE JOINT VENTURE SIPCAM ISAGRO BRASIL.**

**The 2009 financial statements mark the end of the 2003 to 2009 period in which Isagro underwent strong growth, but with profits under target. What was behind this slowdown?**

This seven-year period has been very busy, for Isagro, the market and the macroeconomic context: I would therefore consider 3 distinct stages. The first stage, from 2003 to 2005, was highly satisfactory, with Isagro's listing on the stock exchange and increase in workforce, especially in North and South America, regaining a completely re-balanced debt/equity ratio by the end of 2005 after the acquisitions in 2001 in Italy and India financed from that debt. The second stage from 2006 to 2008 was marked by Isagro first entering a year of serious crisis on the Brazilian market, though this did allow for new acquisitions in Brazil, Argentina and Colombia, financed by new loans. It then returned to a growth period at operational level, however the financial results remained the same or were below expectations, mainly due to the weight of the financial charges. Lastly, 2009 was a difficult year due to the international financial crisis, with significant effects on operating results, albeit of a non-recurring nature. The good news is that the company managed to offset these negative effects, making extraordinary transactions in an extraordinary year, also by making the most of an asset no longer considered strategic. In addition, Isagro continued with its R&D investment programmes throughout this entire period: the short-term results would have been significantly better if these investments had been cut, however we would have felt the effects 5-8 years from now.

**In fact the cost of the investments is reflected in the financial position of the Group, comprising about € 90 million in working capital and € 47 million indebtedness. What are your strategies to improve the situation?**

Our debt is not due to operating losses, but two thirds of it, i.e. € 90 million, is from financing the working capital, which is repaid every three months and has an excellent historical track record, and the remaining third, € 47 million, is from hedging the investments in acquisitions and R&D. So, Isagro invested € 114 million between 2003 and 2009, € 67 million of which was financed from cash flows generated during that period and from capital market manoeuvres: our aim is to halve the remaining € 47 million still financed by loans over the next four years through cash flow generation from the investments already made.

**How will the 2010 investments be financed?**

I can say that the level of investment in R&D will be even higher in 2010 than it was in 2009: the investments will be part-financed by cash flows generated from operations, and partly by a new disposal of non-strategic assets: in fact, in addition to generating cash flows, these moves will allow us to optimise the enhancement of assets and rights, to focus attention on core business and to move resources from low-return investments to highly profitable investments.



## ZOOM IN NEW REGISTRATIONS

Among Isagro's 47 new registrations granted in 2009 (expected to generate a total turnover of € 13.6 million), those that involve the new generation fungicides *Kiralaxy* and *Valifenalate* are of special interest.

Formulations containing *Kiralaxy*, which inclusion on the list of authorised European active ingredients was postponed to 2011 due to the heavy workload of the European authorities, were newly registered in Germany, Poland, Slovenia, Spain, Mexico, Korea, Taiwan and the Philippines. *Fantic M* (for potatoes) and *Fantic F* (for vines) in Germany have the most promising sales potential.

The registration in France of *Valis F*, a *Valifenalate-Folpet mix*, marketed for vines will dramatically contribute to Isagro's growth in this key market. Registrations of the *Valifenalate-Mancozeb mix* are also at an advanced stage in a number of countries, as is the *Valifenalate-Chlorothalonil mix* in Mexico.

Another significant step for the development of the herbicide *Orthosulfamuron* has been its registration in China, where the potential for use on rice is very promising, albeit in a very competitive market. This herbicide can be used for early post-emergence treatment of rice fields, and last year was also registered in Pakistan, Sri Lanka and Vietnam. It is expected to get the go ahead in India this year, while in Colombia for the first time *Orthosulfamuron* was also registered for use on pastures.

Lastly, we should remember the registrations in Italy (*Airone WG*) and in the United States (*Badge X2*) of the new *oxychloride-copper hydroxide mix* in water dispersible granules, establishing Isagro as a leader in the copper-based product market.

## work in progress

### MEETINGS AT THE BEGINNING OF THE YEAR

#### ISAGRO PRESENTED ITS 2009 RESULTS AT ITS FACTORIES AND TO THE ITALIAN AND INTERNATIONAL FINANCIAL COMMUNITIES.

In the first few months of 2010 Isagro held its year-opening meetings, the annual meetings in which the company goes over events of the past year and presents its plan of action for the months to come. This year, along with the 2009 Group results, the new 2010-2013 business plan was illustrated, highlighting the importance of each site in the Group's production and growth strategy.

The first meeting involved the Isagro, Isagro Italia and Isagro Ricerca offices in Novara.

Meetings were then held at the Adria, Aprilia and Bussi sul Tirino facilities, and at the Group's foreign branches.

There was a strong turnout by employees at all the meetings, who had the opportunity to talk to management about the company's prospects. It

was also the occasion to present loyalty awards to employees reaching 10 and 25 years' service with the Group.

The 2009 financial statements and Isagro's new business plan were also presented by the company at the 2010 STAR Conference, held in Milan on 17 and 18 March 2010 at Palazzo Mezzanotte.

The two days of public presentations and closed meetings are a well-established event on the calendars of listed companies and investment companies, with a very high number of companies participating: 67 out of a total of 73 in the STAR segment (91%).





## TENET

**THANKS TO THE PRODUCTS DEVELOPED BY ISAGRO, *TRICHODERMA ASPERELLUM* AND *TRICHODERMA GAMSII* HAVE FOR MANY SEASONS BEEN PROTECTING EUROPEAN FARMERS' FIELDS FROM PARASITIC FUNGI THAT POSE A THREAT TO THEIR CROPS.**

Isagro decided to put this product on the US market too, with *Tenet*, a second-generation biological fungicide especially for the American market. On 8 February it was registered by the Environmental Protection Agency in Washington and is marketed on an exclusive basis by SipcamAdvan.

The base ingredients of *Tenet* block the attack of parasitic fungi at source, as the fungi damage the roots and crowns of the plants. These microorganisms are already present in nature, and can adapt to environments with very different temperatures and humidity. Since they are both live elements, they remain active in the ground and their beneficial effects can thereby guarantee an improvement in the quality and overall yield of the plant, maintaining the long-term health of the roots, offering longer protection against the risk of infection. "The ingredients in *Tenet* – explains Denny Krass, chairman of Isagro USA – have provided excellent disease control in Europe for many seasons now, so we are delighted to be able to offer these benefits to American farmers too".



## ANDREA PRATO: HOW DO WE GET OUT OF THE RECESSION? FOCUSING ON AGRICULTURE.

Explaining to young people, politicians and anyone not directly involved in the sector about the potential of the primary sector, both in terms of employment and in terms of re-launching the national economy: this is the aim of the book "**Meglio un contadino laureato che un avvocato disoccupato**" [Rather a graduate farm worker than an unemployed lawyer], written by the agricultural councillor for the Sardinia region, Andrea Prato, with a preface by the mayor of Rome, Gianni Alemanno.

A return to our roots – as advocated by Prato – highly pragmatic, supported by figures, best practices, visions of a future countryside based on tourism and energy, comprising multifunctional "agrizonas", closely linked to tourism activities. A rural world that has been reassessed and upgraded, with an age-old pride in this countryside bursting with values and opportunities.

*Andrea Prato, preface by Gianni Alemanno (2010), "Meglio un contadino laureato che un avvocato disoccupato", published by Guerini e Associati, 128 pages.*

### Global Berry Congress, London, 12 May 2010

The **Global Berry Congress** is the leading international event focusing on berries, a crucial conference for farmers, researchers, technicians and in general all operators in the production chain. Information on the European and North American berry market will be presented at the conference, along with success stories in the sector. The closing session will analyse opportunities offered by this market. For further information: [www.berrycongress.com](http://www.berrycongress.com).



### 13<sup>th</sup> Congress of the Mediterranean Phytopathological Union, Rome, 20-25 June 2010

Once again this year the Mediterranean Phytopathological Union (MPU) will organise its Congress with the CRA, a plant pathology research centre (CRA - PAV). The aim of this congress is to deal with the main issues regarding plant pathology. This year the meeting will focus specifically on the diagnosis and management of plant pathology, pathogenetic variability, control strategies and new diseases caused by fungi.

For further information: [www.cra-pav.it](http://www.cra-pav.it).