

Bioceres Crop Solutions Corp.

FQ4 2024 Earnings Call

Tuesday, September 10, 2024 12:30 PM GMT

Call Participants

EXECUTIVES

Federico Trucco
Executive Chairman & CEO

Enrique López Lecube
CFO & Executive Director

Paula Savanti
Head of Investor Relations

ANALYSTS

Austin Nathan Moeller
*Canaccord Genuity Corp., Research
Division*

Benjamin David Klieve
*Lake Street Capital Markets, LLC,
Research Division*

Brian Kemp Dolliver
*Brookline Capital Markets, LLC,
Research Division*

Kristen Owen
*Oppenheimer & Co. Inc., Research
Division*

Scott Thomas Fortune
*ROTH MKM Partners, LLC, Research
Division*

Presentation

Operator

Good morning. Welcome to today's Bioceres Crop Solutions Fiscal Fourth Quarter and Full Year 2024 Financial Results Conference Call. My name is Nandija, and I will be your moderator for today's call. [Operator Instructions]

I would now like to pass the conference over to our host, Paula Savanti, Head of Investor Relations. Please go ahead.

Paula Savanti

Head of Investor Relations

Thank you, and good morning. Thank you to everyone for joining our fourth quarter and fiscal year 2024 earnings call. Our presentation today will be led by our Chief Executive Officer, Federico Trucco; and our Chief Financial Officer, Enrique Lopez Lecube. Both of them will be available for the Q&A session following the presentation.

Before we proceed, I would like to make the following safe harbor statement. Today's call will contain forward-looking statements, and I refer you to the forward-looking statements section of the earnings release and presentation as well as the recent filings with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed circumstances.

This conference call is being webcast, and the webcast link is available at the Bioceres Crop Solutions Investor Relations website.

I will now turn over the call to our CEO, Federico Trucco, to begin our presentation today. Thank you.

Federico Trucco

Executive Chairman & CEO

Thanks, Paula, and good morning to everyone. Please turn to Slide #3 to review the highlights for today's presentation. Fiscal year 2024 has been another challenging year for agriculture, with on-farm economics declining in key crops and geographies, particularly in the second half of the fiscal period. For instance, the price of soybeans, a key crop in our portfolio has dropped by 28% since January, just to provide one metric that strongly correlates with the purchasing power of our end users.

Despite this general situation, we were able to consolidate Bioceres' financial performance at record high revenue and EBITDA levels at \$464.8 million and \$81.4 million, respectively. We closed the year with improved momentum in the last quarter, which we already anticipated during our third quarter call. We grew sales by 18% in the quarter and almost doubled our EBITDA for the period with almost half of this improvement resulting from HB4 sales, as Enrique and I will discuss further in the subsequent sections of this presentation.

Although the improvement in the quarter fell short of what we needed to meet our annual growth expectations, and as a company, we cannot be satisfied with less than double-digit growth, and we certainly expect it to do better, we need to recall that last year's performance was outstanding with 25% and 31% improvements in our revenue and EBITDA metrics, respectively, at a time when performance in our industry was on a significant decline. Finally, we'll discuss the recent release for HB4 Wheat in the United States as well as reorganizational changes regarding key leadership positions in the United States and Brazil, which we believe will help us accelerate growth in these key markets.

Before that, I will now pass the presentation over to Enrique for a more detailed discussion of our numbers.

Enrique López Lecube

CFO & Executive Director

Thank you, Fede. Good morning to everyone on the call. Thanks for joining us. Good to have you here. Let's turn to Slide 4 and spend a few minutes going through the financial performance for the quarter and for the full fiscal year. Let me start by highlighting that even though not every aspect of the top line excelled this quarter, our business still delivered strong and profitable results. Revenues grew by 18%, as you can see on the left bottom part of the slide, reaching \$124 million compared to almost \$105 million in the prior year's quarter.

Once again, our diversified revenue sources proved beneficial, as HB4 and Crop Protection sales allowed us to fully compensate for a tougher-than-expected environment for micro-beaded fertilizers. Moreover, HB4 played a crucial role in maintaining a double-digit

top line growth in the year-over-year comparison of the quarter. From an annual perspective, the quarterly growth resulted in full year revenues that reached \$465 million, 11% higher on sales in fiscal 2023.

Revenue performance for the full year was shaped by several factors. In the first half of the year, post drought recovery in Argentina and the nature of the seed oriented part of our portfolio helped us achieve growth despite challenging market conditions in some geographies such as Brazil and the U.S., where channel destocking process altered farmers' purchasing behavior. Our third quarter, as you might recall, saw the negative impact of a lower Syngenta payment accrual in comparison to the year before. Finally, growth in this fourth quarter helped us more than offset that effect to get to the 11% growth that I mentioned.

Let's turn to Slide 5 for more detail on revenue performance by segment. As I mentioned, HB4 was instrumental in terms of top line growth. Seed and Integrated Products delivered almost 2/3 of that roughly \$20 million quarter increase in sales that you can see there, and did so with enhanced profitability as we will see in the coming slides. Although less impressive than that 60% growth in Seed and Integrated Products, the 18% growth in Crop Protection also came with improved margins on the back of higher bioprotection sales and a more focused approach to third-party product sales.

On the Crop Nutrition front, it was a tougher-than-expected quarter, like I said, and one in which we could obviously not achieve everything we had planned for. Micro-beaded fertilizer sales dropped compared to the year ago quarter as the negative impact of the corn leafhopper, or Chicharrita, which decimated corn yields last year led to lower corn acreage in Argentina and hence, softer demand for phosphate, a key ingredient of our fertilizers. A positive in Crop Nutrition was that both inoculant and biostimulant sales grew during the quarter, which to some degree buffered the drop from fertilizers, leading to a modest 3% drop for the segment.

Now for the full year dynamics in Seed and Integrated Products were similar to those of the quarter, delivering a 70% growth. Segment growth was driven by HB4 sales in this fourth quarter as well as downstream sales throughout the year as part of our efforts to make HB4 business more capital efficient and also to expand the commercial footprint of HB4 grain buyers.

Crop Protection, followed in terms of top line growth contribution with a 10% overall sales increase that spanned almost every product category in the segment. Adjuvants and Seed Protection products were the primary drivers of revenue growth in Crop Protection for the year, although, as we will see gross margin expansion can largely be attributed to our bioprotection solutions.

Crop Nutrition sales decreased by 10% or \$16 million, explained in full by the lower accrual of the down payment from Syngenta, which had been \$33 million in fiscal year '23 and now stood at almost \$17 million. Despite softer corn related demand for fertilizers in the third and fourth quarters, strong performance in the first half of the year helped buffer the annual performance, resulting in slight decrease in revenues in Crop Nutrition. Again, opposite to fertilizers, biostimulants emerged as the best performer in Crop Nutrition, and although the relative contribution to sales was smaller, growth in this category, particularly in Europe, completely offset the negative impact of fertilizers.

Now let's please turn to Slide 6 and look at the annual and quarterly gross profit by business segment. Quarterly gross profit grew 18%, fully in line with revenues. It is worth noting though that both the Seed and Integrated Products and Crop Protection segments delivered margin expansion on top of revenue growth. Particularly in the case of -- particularly in the case of Crop Protection, gross profit grew by 50% more than what revenues did, 27% gross profit increase compared to the 18% top line growth I mentioned in the prior slide for the segment. And this was driven by margin expansion in bioprotection products as well as a more selective approach to third-party products being commercialized by our sales force. Crop Nutrition gross profit performed equal to revenues, primarily driven by softer micro-beaded fertilizers. Overall, margin for the quarter remained almost flat year-over-year at 38%.

Now for the full year, revenue growth did not translate into gross profit, which remained stable about the \$185 million mark, mainly explained by the lower accrual of the Syngenta down payment in Crop Nutrition, which you can see there in light gray or shaded gray.

At the individual segment level, dynamics for the year were slightly different than those for the quarter. In terms of gross profit growth, Crop Protection was the top performer with increased gross profit across all product categories in the segment. Revenue growth was almost complemented by margin expansions in bioprotection, like I mentioned, and third-party product sales in a similar fashion to the quarter.

Seed and Integrated Products followed in terms of positively contributing to gross profit and was primarily driven by HB4 fourth quarter sales, which showed good margins. The remainder of the year was somehow marked by higher downstream sales from actions in divesting HB4 inventories as grain, which of course, has a more modest margin than the rest of the segment.

Finally, in Crop Nutrition, again, the lower accrual of the Syngenta payment is the main driver for the year. Other than this, gross profit from inoculants was almost flat compared to the prior year despite the unfavorable comparison since profits were not shared

with Syngenta in the first half of fiscal '23. Similar to revenues, gross profit from fertilizer was flat and the best performer for the segment were the biostimulants with healthy growth in Europe and Brazil during the year. Overall, gross margin for fiscal year '24 decreased from 44% to 40%.

Let's turn to Slide 7 and look at adjusted EBITDA for the quarter. To reiterate what I mentioned at the beginning of the call, we were hoping to achieve more than what we did this quarter. At the time of the prior earnings call, we were aiming to grow profitability by 3x on the back of what seemed at the moment, the delay in farmers' purchasing of fertilizers in Argentina and bioprotection in other countries such as the U.S.

The recovery in fertilizers finally didn't take place like we already discussed. And the market for bioprotection, particularly in specialty crops in the U.S. remain the complex one. Yet, I would like to point out that we were able to maintain gross profit contribution for Crop Nutrition in the quarter and still have HB4 and Crop Protection products contribute to growing profitability in a meaningful way and growing EBITDA twofold in the quarter.

Also in the face of challenges for some of our products, we focused on the cost side of the business. And during the quarter lowered fixed SG&A by \$1.6 million compared to the year ago quarter. Variable SG&A grew in line with top line growth and was the only negative contributor to EBITDA. To this regard, on lowering fixed SG&A, although I don't expect this to be the trend for a growing business, we do aspire to significant operational leverage by growing gross profits and keeping fixed costs as flat as possible.

The full year adjusted EBITDA on Slide 8 is an example of that in terms of costs. As fixed SG&A remained roughly flat and variable SG&A grew in line with top line. For the year in terms of gross profit, like I already described, the main explanation behind the flat performance was the drop in the Syngenta upfront accrual, which was coupled by flat performance in fertilizers, explaining that almost \$15 million drop in gross profit contribution from Crop Nutrition. Crop Protection and Seed and Integrated Products contributed to offsetting that. And at the end of the day is what explains our EBITDA mark at \$81.4 million for the full year.

Finally, let's turn to Slide 9 to look at financial debt. Total net financial debt increased compared to a year ago, but decreased on a sequential basis compared to the last quarter. On the annual comparison, the increase in total financial debt is well below our increase in working capital and still well into the less than 3 turns of leverage that we always like to keep. So we expect this to continue improving as we generate cash in the future and increase our financial position.

So to wrap it up, I would say that despite not excelling on every front, I think that our financial results for fiscal year '24 demonstrate once again the resilience of our business in the face of a challenging market and the strategic value of maintaining a diversified yet coherent and continuously evolving portfolio of technologies. We achieved top line growth and maintained our full year adjusted EBITDA above the last year's record high \$81 million. While we successfully managed our cost base and prevailed with the profitability results for the year. We intend this year's result to be a stepping stone rather than a milestone, and look forward to continuing expansion of our business with a focus on profitability and enhanced financial performance.

With that, I will turn the call over to Federico. Fede?

Federico Trucco
Executive Chairman & CEO

Thanks, Enrique, and please turn now to Slide #10 for a more detailed look at the evolution of our HB4/Seeds business during the year and the quarter. Revenues from our Seed business and HB4 technology grew significantly over the year at 2.7x with steady but still low gross margin due to the downstream component of the identity preserve scheme, which involves low grain margin grain sales -- low-margin grain sales as Enrique indicated in his part of the presentation.

As we shift our business model to a more conventional approach, we are starting to see improvements in our overall profitability, as we have seen in the last quarter of the year, with close to half of the revenues associated to conventional seed sales. And by conventional, what we mean is non-identity preserve. These are still GMO seeds. Which will also demand less working capital as we are not longer purchasing all the resulting production. The shift towards these more profitable and capital-efficient model does require a more patient approach to growth. Since multipliers and farmers now bear a greater risk to explore new materials and technologies, discontinued long-standing relationships with traditional providers and validate the 5x increase in the royalty cost of wheat seeds that are associated to the HB4 technology.

As a result, we fell halfway between where we were last year and what we expected to do during this season, which we believe will be more than offset or compensated with sustainable improvements in the upcoming season and beyond. However, and before we turn to the next slide, we are now in the process of reviewing our HB4 Soy expectations for fiscal year '25. Despite the good performance we're seeing in Brazil and the significant improvements in our Argentine portfolio of varieties, we believe that it will take us 1 to

2 more years to have the portfolio depth and validation that is required to achieve our previous guidance under this new business approach. We are now more intensely partnering with top genetic providers in Latin America to try to shortcut this process, but keeping our previous guidance is just not realistic at this time. We can address specific concerns and questions on this topic during the Q&A session.

Turn now to the following slide for a discussion on the implications of the USDA APHIS note regarding HB4 Wheat. This is Slide 11. Under the APHIS note that we announced a few weeks back, HB4 Wheat is no longer subject to specific limitations. So now we can move forward with field activities, non-regulated field activities for product development and commercialization. We are already collaborating with some with participants, in particular, with the Colorado Wheat Research Foundation with whom we are developing 7 materials, targeting the Hard Red Wheat footprint, both winter and spring. And we are also looking forward to onboard other state organizations that are active in bringing wheat genetics for the Midwest to have a more broad approach to HB4 opportunity for the U.S. Now this will not materialize from one year to the next. It will take time.

We believe that by addressing these Midwestern states, we can probably double the existing opportunity we have today when we look at Latin America and Australia combined. And we will do so following the guidance that was provided by the wheat industry associations, the U.S. Wheat Associates and the National Association of Wheat Growers that requires approvals in certain key geographies where wheat exports from the U.S. are relevant as well as an effective way to identify HB4 presence in wheat shipments, which we already have because of the developments we did in Argentina with optic devices, which are available at all points of delivery and carry almost negligible costs for HB4 detection. That will be partnered with outreach and educational programs. So we can have all elements in place at the time of launch and hopefully take advantage of this opportunity in the medium term.

In the short term, I think that the approval in the U.S. also serves as a validation in our domestic market in Argentina and Brazil, where we're currently scaling HB4 Wheat because it's always comforting to see the rubber stamp of U.S. regulators and the incremental or additional acceptance in other geographies as a way to mitigate some of the fears that existed early on in terms of the commercial implications around GMO wheat.

Let's turn to the next slide to discuss some organizational changes. I would like to introduce to highly regarded professionals that have decided to join our organization recently and be part of our leadership team in two key roles. Milen Marinov, that he is joining us as Senior Vice President of Commercial for North America under the ProFarm umbrella and Global Key Account Manager. Milen has an extensive experience in the biological industry comes from Syngenta, and previously it was an important part of the Valagro growth before the Syngenta acquisition. He joined us back in July to fortify the team in the U.S. and globally, our biologicals effort.

And more recently, Susana Martins Carvalho that is leading our unified effort in Brazil, where we previously operated under both the ProFarm and Rizobacter brands. And now we have both unified under Susana's leadership. Susana has also been very successful in growing businesses from scratch in the biological and bionutrition space, and we look forward to her contribution in consolidating our opportunity in Brazil.

Let's turn to the final slide for some areas of focus or emphasis that we will keep in mind for fiscal year '25. As I think results from the discussion we just had on HB4, we will have a key focus on cash generation and profit expansion in all our businesses, but particularly in HB4 and particularly as it relates to HB4 Soy, where we're looking to partner with strategic generic providers there to be able to fast track the transition to the new business model in this particular business segment.

We are also looking forward to continuing investing in the development and registration of our biocontrol solutions. Last year, we got the approval of our first bioinsecticides in Brazil. We are still waiting for the approval of the MBI-306 platform in the U.S. that is a key driver of growth for our seed treatment applications in that geography. So that is an important aspect that we look forward to next year as well as the approval of some biofungicides, both in Europe and Brazil that should help us further consolidate our leadership position in the biocontrol space.

We also would like to leverage our portfolio of key biological AIs, and this might be a new term to some of you to improve the efficacy of -- not only the efficacy, but also the environmental profile of our some well-established products, some of which come from our proprietary portfolio like adjuvants and micro-beaded fertilizers that we can now combine with biologicals to improve their functionality and further differentiate them in the marketplace. But also third-party technologies with underutilized assets that are still valuable, but probably can be significantly improved in their ability to control pests by combining them with our actives and also in doing so, significantly improve their environmental profile. So that is something we are more actively seeking to do in fiscal '25 and forward.

And finally, we have made investments in installed capacity. In Brazil, as you know, last year, we inaugurated a brand new adjuvant facility that is today probably operating at less than 30% installed capacity. So ramping that up to fully installed capacity as well as

bringing online the new fermentation capacity in Pergamino. It's key for us to be able to optimize our manufacturing, operations and make sure we can supply our products in time and form to our global customers. So that's basically, what we are looking to do areas of emphasis or focus for fiscal '25.

With that, I think we can now open up the call for Q&A. So operator, we are ready for the Q&A session.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Ben Klieve from Lake Street Capital Markets.

Benjamin David Klieve

Lake Street Capital Markets, LLC, Research Division

First of all, in the quarter itself, the dynamics you described in the Crop Protection and fertilizer space totally makes sense. I'm struggling to understand how HB4 Wheat played out during the quarter though, and I'm hoping you can help. On the third quarter call on May 10th or so, you noted that there were \$6.5 million of incremental EBITDA from that product that had been achieved in the first 40% of the quarter, which looks to be basically the entirety of that product's profitability in the entire quarter. So can you guys describe what happened in the first 5, 6 weeks of the quarter that gave you so much confidence in the HB4 Wheat as of the third quarter call? And then what changed in the last 60% of the quarter?

Federico Trucco

Executive Chairman & CEO

Ben, this is Federico. Thank you for your call. I think it's very relevant to make that clear. I think that what you saw when we did the third quarter guidance was mostly what we were able to do ourselves in terms of the traditional channel in part, with farmers that were recurring customers and provided early indications. Our expectation was that the multipliers that we onboarded last year will give us a sort of a similar push towards the end of the quarter. And that is what finally didn't quite materialize. So it was disappointing to that effect. So we did slightly better than what you saw in that guidance, but felt halfway towards where we wanted to be, which was \$15 million net, if you will, from this particular product category.

I think what we, in a way, underestimated was the level of validation that is required for conventional sales. So when farmers participate in the identity-preserved scheme, there's a little bit of handholding from the company, where we try to mitigate risk that doesn't occur when they are first exposed to the technology. So that can be one element. I think there is another element that has to do with the time it takes to displace existing relationships, which is not done from one day to the next. So it's done on a more gradual speed.

But finally, and I think this is where we need to fine-tune our proposal. We came to the market with a product that had a royalty load of \$11 per bag. And that was nominally fixed and probably implied a more significant increase in price if you think that wheat prices were coming down. So from a total product cost that represented a significant percent of the total product cost, and that compared to just \$2 for conventional genetics. So even though that wasn't much of a concern within the identity-preserved scheme because there are other elements that improve economics under that process, it did become a more significant aspect in the conventional sales channel.

So what are we doing on a forward-going basis, obviously, generating the data to support the onboarding of farmers that have not participated in prior experiences and our customers of our multipliers, and probably adjust the pricing so that it becomes in more directly correlates with the price of wheat, and it's nominally fixed. That required a conversation with our JV partners. It's probably something that we identified late in the season. So we had little time to maneuver and ended up giving us the result that we are currently reporting.

Benjamin David Klieve

Lake Street Capital Markets, LLC, Research Division

Okay. That's a lot to unpack, but directionally, all that makes sense. I guess, I'll ask one more kind of high-level question and then get back in queue. And that's around the -- kind of the Board's philosophy over the last 6 months given the dynamics, particularly within HB4. I mean, you guys are both on the Board. Has there been a more -- has there been any kind of change in the thought process of the Board? Any kind of more seismic moves that on a high level that the Group is considering now given the challenges in HB4 in this commercial launch? Or is the commercial trajectory and commercial strategy that you laid out really fully supported and the sole kind of focus of kind of the trajectory of the company going forward here?

Federico Trucco

Executive Chairman & CEO

I think, obviously, the Board does react to sort of the reality that we are experiencing. I think I wouldn't go as far as saying there is a systemic change. But I do believe there is a clear vision that we are at a stage where we need to pivot from where we were to where we need to be. And I think sometimes we need to analyze why we did what we did in perspective, in terms of why we put sort of these identity-preserved scheme in place, as a way to get rid of some commercial concerns early on where we need to be probably more involved in the commercialization process of the grain than what we would have liked.

And also as a way to get exposure to the technology prematurely, which is something that we felt was going to translate into accelerated growth. That was achieved partially. I think our conclusion today is that we now need to be more efficient in working capital allocation, in capital allocation in general, and that was one aspect that the Board highlighted and in a way, emphasized the need to pivot from this particular business model to one that is more conventional in nature.

And also, I think that we recognize that in that conventional approach, there are companies that have excelled in the past that we could probably partner with to sort of help us troubleshoot some of the things we need to troubleshoot. The answer is, yes, there is kind of a pivoting in the strategy at the Board level, that is going from one business model to a different one. There's still a high level of conviction on the value of the technology and what it can do to farmers. It's just about how do we approach them, Do we go with sort of the well-known participants, the people that have had the relationships for many years? Or do we continue to sort of persuade them to engage directly with us in seeds, which is probably not a space where we have been operating for too long.

So I think now we do recognize that, that help might be needed more so in soy than in wheat. I think in wheat, we feel we're in a good spot and that we can quickly expand our profitability and market share. But in soy, I think we do need that partnership and that is something that the Board will probably be looking of us in the months to come. How do we fortify our effort by bringing people that are well established, probably leading on the genetic space to help us achieve top-performing varieties that can be quickly accepted and validated by farmers so that we can roll out HB4 technology at a faster pace.

Enrique López Lecube
CFO & Executive Director

So, Ben, maybe to complement on what Federico said more from a kind of like financial standpoint. I think that there are two underlying fundamentals that changed since we started with this strategy for HB4. One, of course, is the cost of capital but significantly increased in the last year or two. And the other one is that, of course, that we have competing capital allocation projects or destinations for the capital that the company has. And that is, to me, the acquisition of the meaningful bioprotection platform that we now have in ProFarm plus the biostimulants. So there's also a capital allocation competition. And I think that like Federico highlighted, HB4 remains a key technology for us. I think that is well understood. It is also an issue of where we want to put our capital at work and what creates more value for shareholders without negating the underlying value of HB4. So that's what we are trying to find, a way of doing both things in a more capital-efficient way.

Benjamin David Klieve
Lake Street Capital Markets, LLC, Research Division

Okay. Very good. Well, I appreciate you both taking my questions. Good luck here in the upcoming planting season in South America, and I'll get back in queue.

Operator

Our next question is from Kristen Owen from Oppenheimer.

Kristen Owen
Oppenheimer & Co. Inc., Research Division

And actually, a really nice transition into some of the questions that I had for you, which are really more on the biological piece of the portfolio, maybe short term and then a near-term question. On the short term, we are sitting here in early September. We're coming into planting season. Just hoping you can maybe provide some color on trends thus far, how order books are looking? What's the on-the-ground sentiment for the farmer? And I'll ask you to maybe break that out, Brazil versus Argentina, given some of your prior comments.

Federico Trucco
Executive Chairman & CEO

Kristen, thanks for joining us today. I think that the different realities in different geographies. Thus far, I think in the U.S. and in Brazil, things are progressing well compared to the year before. Now remember, the year before was probably a soft year in those two

markets, but it's good to see that we're finally catching up in the quarter thus far. In Argentina, I think we are still waiting for rains for the summer crops season to be visible to the ag-input providers. So as Enrique alluded in his part of the presentation, part of the micro-beaded fertilizer sales that we were expecting in the fourth quarter were not materialized. Part of that has to do with a shift in crop area from corn to soybeans. That is also dependent on near-term rains. So if we do have good rains in the next two weeks, that shift might be less severe compared to if rains do not materialize. A way to mitigate the Chicharrita effect is to have corn-planted very early on. So that means right now, and if that happens, you might see a concurrent effect in our micro-beaded fertilizer sales.

So I think we are tracking well in Brazil and the United States. In Argentina, we still have some uncertainty regarding the weather effect and how that might play into the current soybean mix. I don't know, Enrique, if you want to add to that.

Enrique López Lecube
CFO & Executive Director

No, I think that, that's right on spot, maybe on sort of like some smaller geographies like Uruguay, Paraguay, I think that things are tracking along well but completely agree with Federico's comment on sort of like things yet to be seen in Argentina as it relates to weather and how that affects sales evolution. So maybe just a reminder, remember that we usually have that discussion of Q1, Q2. From an underlying business perspective, we always look at the first half of the fiscal year as more sort of like a relevant indicator of how we performed commercially. Since sometimes things go from Q1 to Q2 or sometimes we have advanced sales in Q1 on pre-season sales of Q2. So, bear that in mind.

Kristen Owen
Oppenheimer & Co. Inc., Research Division

Okay. The cadence there, seasonality there is a helpful reminder. Longer term, I guess my question is you've brought in some new leadership in the biologicals business. I understand there's still some registrations in the pipeline that you're hoping to come in, in 2025. Just the positioning of this portion of the business, given that that's where you're seeing really strong growth and less of the overall or rather, let me rephrase that as you're really differentiating in the market compared to what we've seen in traditional crop chemical, where they've suffered from a great deal of inventory destocking and generics. This seems to be a business that is sort of differentiated from that broader market trend. So just positioning of biologicals long term and what bringing this new leadership in means for that business.

Federico Trucco
Executive Chairman & CEO

Well, I think it's very relevant for that business. This new leadership is specific to the biological side of the portfolio. So will have no activities or responsibilities around the seed and HB4 part of the business. I think in the case of North America, the big driver there is to move into row crops, and that it's where we will face or we'll -- it's an opportunity where we don't see the difficulties of traditional chemicals. So the destocking situation that you've seen in that space does not equate to the reality of biologicals in part because there's very little in the biological space in row crops and also some of these products just cannot be kept in inventory forever. So the fact that they are biological means they have expiration dates, and that requires a different type of inventory management.

So I do believe the seniority in the leadership today will not only allow us to strengthen our existing sales efforts directly as pure biologicals in certain geographies, for sure in the cash crop market and part of the sort of the seed treatment play where we go with 100% biologicals, but also enabled us to do a little bit of what I indicated at the last -- in the last part of my presentation, which is develop hybrid products where we can use our portfolio of biological AIs to revitalize, functionalize existing products.

So there might be a way by which combining one of our biofungicides or bioinsecticides might improve the environmental profile of an existing fungicide or insecticide, while improving its efficacy in the control of certain pests. I think that allows us to have incrementality earlier on, before sort of the 100% biological product or the full biological product can sort of achieve the cost parity and broad spectrum of control that is often expected of chemicals. So there's an in-between step there that requires developing these combinatorial products that I believe have a high level of differentiation in which the differentiating element is what we can provide from our existing portfolio of biological AIs, and the leadership we have in place I think is well prepared to have that type of conversations and take full opportunity of that advantage.

Enrique López Lecube
CFO & Executive Director

And just to complement on what Federico said something that we've been discussing with you all is that the opportunities for growth for us in the midterm lie in probably in these two markets, which have different complexities. I think that having a holistic approach with all of the portfolio, targeting different regions in Brazil, is something that we were long due to do, to have a vision for that country. I

don't think we're going to get a V-shaped recovery in neither of these two markets, but we are starting from small in a market that is at least giving signals of recovery.

So there's good opportunity in Brazil. It's a big, big market where we have a tough portfolio and still technologies to be developed to tackle the agronomic challenges that farmers have in that market like Federico just described. And the U.S. is slightly different with a more complex distribution network to be addressed, but yet with the full opportunity to be grabbed in terms of moving into row crops. So those two things in the midterm are strong drivers of growth in the biologicals business and having senior leadership that Federico just said, is a cornerstone of materializing that growth.

Operator

Our next question is from Kemp Dolliver from Brookline Capital Markets.

Brian Kemp Dolliver

Brookline Capital Markets, LLC, Research Division

Great. I think it's USDA put out some forecasts for this season, indicating that soy plantings in Argentina are likely to hit a record, whereas in Brazil it will probably be more flattish. So the first question is, given your mix of business, will that likely benefit you? And then the second question specifically relates to whether that will benefit HB4 Soy?

Federico Trucco

Executive Chairman & CEO

So thanks, Kemp, for participating in the call. I think the Argentina situation will probably benefit in part HB4 Soy, and all of the portfolio that we have around that crop. And it has to do mostly with the shift that we indicated before of corn acreage that is shifting to soy because of new pest pressure. That is dependent on the rains now in September because if we have enough water in September, part of that shift will not materialize because the early planting of corn is a way to mitigate in part the effect of these new pests. So if there are no rains, then the shift will be more dramatic, and we will recover part of the soybean acreage we lost over the last 2 to 3 years.

Now for a company that sells inoculants that are fully dedicated to soy, the full sort of seed treatment pack that we have in that crop, and also an important seed trait like HB4 in that particular crop, that is more favorable because we are more exposed to soy than we are to corn, except in one product category, which are the micro-beaded fertilizers, where corn is very relevant to us. So, there's never a perfect sort of shift.

Now, in the case of Brazil, the -- being flat in Brazil is almost like coming down elsewhere because that's the one country that has added, I don't know, if 0.5 million hectares every year since they became this soybean powerhouse. Now, I believe that at the current commodity price, probably the country average yield is not enough to break even. So farmers will need to do better than average to make money on soy under the current situation. And that might have two implications, either that you need to be very aggressive on technology to try to improve productivity and do better than average in which case, that might tend to favor us or you become very cost conscious, go so for the cheaper alternative on the ag-input offerings, and that will tend to make it more difficult for us.

Now, remember, in Brazil, we are dropping the ocean still. Our business it's not too relevant. The product category that is more related to soybeans is on the hands of Syngenta, where we have take-or-pay type agreements with minimum profitability. So that is somewhat fortified and then the business that we are currently executing is more on the biostimulants, which is more corn dependent than soybean dependent. And bioprotection is, I would say, encompassing of all crops, and adjuvants, of course, are not crop-specific. So never a straight answer when you see that type of shifts. So some aspects we might do better, in some aspects, it might be slightly more challenging.

Brian Kemp Dolliver

Brookline Capital Markets, LLC, Research Division

Great. Second question relates to the biological business management transition. And when I look at how you report your business and the products under each segment, particularly for Mr. Marinov, who has the broader portfolio, I mean, what products and what percentage of the business does this represent roughly?

Federico Trucco

Executive Chairman & CEO

So it's obviously the biological portfolio accounts from ProFarm that is being commercialized in North America and globally with strategic partners. So that maybe today represents 25% of total revenues when you combined -- when you do the geography by

portfolio overlap. But it's the part of the portfolio where we are expecting probably greater growth and greater profitability. So these are products that tend to be above our average gross profit, significantly above our average gross profit. So a very important element of future growth for us.

Brian Kemp Dolliver

Brookline Capital Markets, LLC, Research Division

Great. And my last question relates to the HB4 outlook for next year. And you're backing away from the prior target, but it strikes me the business is still growing. The issue is the rate of growth and then the profitability be achieving your original expectations. Is that fair, or is it any worse than that?

Federico Trucco

Executive Chairman & CEO

I mean for sure we will be growing. I think the key -- and growing in the way that really matters, which is in the profit line and not just the revenues. I think the thing that is tough for us to sort of do today is jump from where we are to where we expect it to be next year. And that's why we're saying it might take us 1 to 2 more years to be there. But in a way, that is probably less working capital demanding and where we are probably expanding profits more significantly compared to the prior working -- prior business model with a heavy reliance on identity-preserved sales.

Operator

Our next question comes from Austin Moeller from Canaccord.

Austin Nathan Moeller

Canaccord Genuity Corp., Research Division

Just my first question here. Are there geographic markets where you're seeing a greater demand opportunity for biofungicides and bioinsecticides due to resistance from traditional chemical pesticides?

Federico Trucco

Executive Chairman & CEO

Austin, thanks for joining us. Great to have you on the call. I think, obviously, the one market where there's a high demand for that is Europe, despite sort of the difficulties in getting products approved, which is probably a different discussion, but that is by far the most relevant market in terms of these new technologies, not just because of resistance evolution of poor performance from chemical products, but also because of regulatory restrictions on chemical loads in seed treatments and over-the-top applications. So that's what I would say is probably the most significant driver.

We do see that also in Brazil, to some extent in Argentina. We are already commercializing Rizoderma, as a seed treatment, fungicidal seed treatment in soy and wheat. So -- but this is obviously a much smaller market compared to Europe. But that's -- that is going on today. It's probably a market that many companies are pursuing. And hopefully, we can be there with our top products in the near term.

Enrique López Lecube

CFO & Executive Director

Austin, this is Enrique. Thanks for joining us. I would also add that probably we are seeing an opportunity in foliar applications in the Mexican market that is increasingly taking share away from the U.S. West Coast market when it comes to specialty crops. So some of that demand is migrating from the U.S. West Coast into Mexico, and we are seeing an opportunity there where we have registered biofungicides that are picking up pace in terms of revenues and sales.

Austin Nathan Moeller

Canaccord Genuity Corp., Research Division

Great. That's interesting. And just touch on the Syngenta agreement. Do you still anticipate a 2-year or so ramp for the Syngenta agreement to surpass the revenues that you were able to produce a lot?

Federico Trucco

Executive Chairman & CEO

That is a very good question. And I think that it's right on spot, Austin. Like we mentioned, the upfront payment consideration is meant to make up for the time where we share profits and revenues with Syngenta, and that means that we were not at the level that we were on ourselves. What I would say is that more important than revenues is profits, and we are already having indications that we are navigating the Syngenta agreement at a cruise altitude that brings in from them the same profits that we were to do by ourselves.

So even though that might translate into sort of like lower gross margins, because it's now more bulky in terms of revenues, I think that we are getting there, and that probably in the coming year, we will start seeing some genuine profit growth contribution coming from that agreement. That is something that we didn't achieve in the first 2 years of the agreement, or 1.5 years. I mean, we were sharing profits with Syngenta on a business that was yet not big enough to bring in the profits that we were making ourselves, and that is what the compensatory payment was meant to cover.

So my expectation at least is that in the next year or so, we see Syngenta bringing in to us profits in the same tune of what we were meant to do by ourselves and now having a bigger footprint jointly with them.

Operator

Our next question comes from Scott Fortune from ROTH Capital Partners.

Scott Thomas Fortune
ROTH MKM Partners, LLC, Research Division

Yes. Just congratulations on the U.S. side. A little bit of color on kind of the step or the pathway for potential regions and the focus on Northern U.S. and the different type of various varieties. Just kind of a time line that you're looking for the U.S. HB4 Wheat to come online, still a couple of years out here for sure. But -- and then just any Australia kind of the regulations and potential time line and opportunity in Australia for the HB4 Wheat would be helpful to re-sense?

Federico Trucco
Executive Chairman & CEO

Scott, this is Federico. Thanks for joining us as well. I think in the U.S., what we've indicated is that we feel that sort of the earliest opportunities around Hard Red Wheat genetics, which are planted in the Midwestern states, both as winter wheat and spring wheat. The spring wheat part probably is more closely aligned with the type of genetics we use in Latin America. The winter wheat types are the ones that probably are more different and where we need to initiate relationships with breeding programs that currently supply farmers with that type of genetics. So the Colorado Wheat Research Foundation is one. There are other state organizations that are currently supplying farmers. There are some private companies also that are participating in this particular business segment within the wheat space. So Limagrain, Syngenta, Bayer.

And our approach will be one of broad licensing the technology to most participants, everyone that wants to have a converted material into HB4, so that we can address that initial opportunity. Why are we not moving away from that Midwest region? It's probably because if we go to sort of the more Pacific production regions, then the international approvals that will be required are probably more demanding. We might need Japan and South Korea to be in place, and that might take a little longer. So that might come at a second stage, where for the Midwestern part, I think a lot of that wheat is using domestic consumption and using part of the strategies we have used in Latin America might allow us to initiate commercialization sooner rather than later, minimizing the interference with the existing commercial channels to key export markets of the U.S.

And that is where we need to sit together with the industry participants, the U.S. Wheat Growers Association has been following the evolution of this project from day 1 in a very constructive manner, very broad technology manner, but making sure that we establish joint objectives to say okay, when we are able to release varieties and how we should do that. So, this will not take less than two years. because of the biology of what needs to be done. And if it takes a year longer or not, depends on these other elements of -- that have commercial implications, particularly for wheat exports out of the U.S. that we might need to address. But it's an important market. It's potentially a 4 million hectares for HB4 Wheat out of the maybe close to 20 -- 20-some million hectares that are planted with wheat in the U.S.

And with regards to Australia, when we did the announcement on the APHIS note, we also indicated that we received the first permit to do field trial in Australia for HB4 Wheat, which is important to move forward with a breeding process, a variety conversion, technology validation and the regulatory work that is required towards final cultivation approval. It might take a few years, but that is moving forward in a predictable manner. And we already have the first permits in place to be planting HB4 Wheat in that geography.

Scott Thomas Fortune
ROTH MKM Partners, LLC, Research Division

I appreciate the color. I know it's been a long call, but one last thing. Just want to kind of summarize, I mean, you're putting a lot of focus here on profitability and improving cash flow generation. You've talked about the different measures. But I just want to get a sense for how much of this is coming from continued scale up HB4 versus kind of biologics. Just kind of summarize your initiatives, your focus on reaching -- increasing your profitability and generating that cash flow for '25. Just kind of that focus would be great.

Enrique López Lecube
CFO & Executive Director

Scott, this is Enrique. Thanks for joining us. Good to have you. So to that regard, I think it's a joint effort. Of course, that we are and we have already been focused on trying to improve cash generation from HB4. Part of the initiative with the downstream sales was to reduce the level of inventories that we had on varieties that we already knew that we didn't want to sell as seeds. And in part, we were able to accomplish that in fiscal year '24. I think that, that will be an ongoing effort that will continue with the pivoting that Federico alluded to in terms of the soybean strategy and outlook for HB4. And then I do think that we still have some pending homework to do on the biological business, where we also expect to improve working capital position and be able to generate profits with a much better cash conversion cycle for biological sales. So it's going to be a joint effort on both fronts.

Operator

There are no additional questions waiting at this time. So I will pass the conference over to the management team for closing remarks.

Federico Trucco
Executive Chairman & CEO

Well, I want to thank everyone again for participating in the call. I hope we can built on this to sort of achieve the opportunity that the technologies and the products that we have in our portfolio deserve, in the different geographies in which we operate. We are working hard to improve on every aspect of our business, be conscious on capital allocation considerations, while we continue to do things that are compelling, that are helping agriculture transition to where we feel it has to go, which is improve productivity, minimize environmental externalities, while preserving the affordability to consumers. So thank you again for joining us, and please feel free to reach out to the IR team or us directly for any further questions or concerns. Have a great rest of the week.

Operator

That concludes our conference call. Thank you for your participation. You may now disconnect your lines.

