

# Annual General Meeting

## Chairman's address



**GrainCorp**  
100 YEARS OF GROWTH

20 February 2019

It is now time to present my report to shareholders. I will summarise our 2018 financial year results before updating shareholders on the status of the indicative proposal we received from Long-Term Asset Partners Pty Limited ("LTAP") last year. I will then comment on the Portfolio Review we have been undertaking over the past several months, to identify options to maximise the value of your company for all shareholders.

Following my report, our Managing Director and CEO Mark Palmquist will make his presentation and at the conclusion of his remarks we will invite questions and discussion from the meeting.

### 2018 Results

After a strong year in 2017, fiscal year 2018 was more challenging for GrainCorp and the broader grain sector in eastern Australia, with below average grain production across this region.

Despite these challenges, our FY2018 results demonstrated solid improvements in returns from our two processing businesses.

GrainCorp Malt maintained its high capacity utilisation and continues to benefit from strong demand, particularly from craft beer customers and distilling customers. This business enjoyed the benefit of a full second half contribution from the expanded capacity at our state-of-the-art facility in Pocatello, Idaho.

GrainCorp Oils saw an improved performance from Foods, driven by the achievement of operational efficiencies and cost reduction, as well as strong demand for animal feeds. This business did experience weaker oilseed crush margins, due to the drought conditions limiting canola supply. Our investment to expand production at Numurkah, Victoria was completed last September, delivering a 40% increase to our crush capacity. Liquid Terminals again performed solidly.

Our Grains business made good progress in expanding its international origination capability, by establishing a new office in Ukraine and through securing port access for GrainsConnect Canada through our agreement to partner in the Fraser Grain Terminal at the port of Vancouver. In addition, the Board has also approved the establishment of a presence in India to build our exposure to the growing pulse trade. This expansion and our investment to increase supply chain efficiencies will improve future earnings for the Grains business.

Most of our investments across the portfolio have now been completed and are delivering results. We expect an even greater impact when the production cycle returns to more normal levels.

For the year ended 30 September 2018, our earnings before interest, tax, depreciation and amortisation (EBITDA) were \$269 million (\$390 million in FY2017) and underlying net profit after tax (NPAT) was \$71 million (\$142 million in FY2017).

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The Board declared a final dividend of 8 cents per share for the period to 30 September 2018, taking the total dividends for the year to 16 cents per share. This payout ratio of 52%, is in line with our policy of paying out 40-60% of full-year underlying NPAT through the cycle.

### **LTAP Proposal**

As shareholders are aware, late last year GrainCorp received an unsolicited, indicative and non-binding proposal from a party known as Long-Term Asset Partners Pty Limited, or LTAP.

GrainCorp continues to engage constructively with LTAP to assist them as they undertake due diligence and seek to develop a formal, binding offer capable of consideration and response by your Board.

GrainCorp has further sought to assist LTAP by responding to detailed questions and through conducting management presentations – all under strict confidentiality provisions.

I have spoken personally with LTAP's Chairman in advance of this meeting and the engagement between GrainCorp and LTAP remains active.

As I report to you today, LTAP's proposal remains indicative and non-binding. There is no certainty that LTAP will make a binding proposal for the Company, or what the terms of any such proposal would be.

Should a binding proposal be received from LTAP, the Board would assess its merits to deliver superior value to shareholders in light of the other alternatives which are being evaluated as part of our ongoing Portfolio Review.

### **Portfolio Review**

As announced late last year, your Board and management have been working through a comprehensive review of our asset portfolio for many months, aimed at identifying options to maximise value for shareholders. This review covers all parts of our portfolio. It is well progressed and ongoing.

Today I can confirm that GrainCorp has been approached by a number of parties who have expressed serious interest in purchasing part or parts of our portfolio.

Regrettably, I am not in a position to disclose further information about these parties or discussions today, as our engagement is ongoing, incomplete and the details are, of course, subject to confidentiality.

GrainCorp's Board wishes to ensure these discussions are provided the opportunity to deliver full value for shareholders and we continue to look at all options in order to achieve that. I commit to providing further updates as and when these discussions reach fruition.

In addition to these matters, the company has realised significant benefit from the business and process simplification changes made in the Grains business, which has streamlined processes, improved decision making and our responsiveness to customers, and delivered cost and efficiency benefits. As a result, our review is actively exploring options to apply a similar business and process simplification approach across other parts of our portfolio.

### **Market Outlook for FY19**

Turning briefly to outlook, we expect a further strong performance from the Malt business, driven by continued strong demand for specialty malts used in craft and distilling. GrainCorp Malt will benefit from a full-year contribution from the Pocatello plant, and will also be working towards delivery of our \$94 million expansion of malting capacity at Inverness and Arbroath in Scotland, a project due for completion in calendar year 2021. This project will increase malting

capacity in Scotland by almost 80,000 tonnes, supporting the strong distilling growth there. GrainCorp Malt also continues to expand its distribution capability in the United States, having recently opened a new warehouse in Florida and with more in the pipeline.

GrainCorp Oils will be focused on continuing its performance and efficiency improvements, however we expect ongoing pressure on crush margins due to the limited supply of canola arising from the drought conditions.

For Grains, unfortunately growing conditions have deteriorated further since 30 September 2018, with year-to-date rainfall amongst the lowest recorded in the past century and most of eastern Australia in drought. This will further challenge GrainCorp to improve cost-efficiency and build on the substantial progress made through actions taken by the business over the last four years to improve its underlying performance. These actions include integration of the former Storage & Logistics and Marketing business units in 2017, which was a fundamental change to our operating model, simplifying the operating structure, streamlining the network and other operational changes to reduce costs. Additionally, the company has entered into improved rail supply arrangements to substantially eliminate 'take or pay' obligations and minimise associated fixed costs. Collectively, these initiatives are expected to deliver a substantial annualised improvement to underlying earnings, which our Managing Director Mark Palmquist will step through in further detail shortly.

## **Conclusion**

On behalf of my fellow Board members, I want to thank the GrainCorp team for their dedicated performance in 2018 and in the early months of 2019. I thank all shareholders for their support. Your Board is fully committed to navigate the strategic options before us so as to achieve the best, highest value outcome for all shareholders. You should expect updates on the further results of our Portfolio Review and, in due course, a recommendation from the Board as to our best path forward.

**Graham Bradley AM**