Event Transcript

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Start of Transcript

Operator: Thank you for standing by and welcome to the GrainCorp Limited FY20 results conference call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Luke Thrum of GrainCorp. Please go ahead.

Luke Thrum: Thanks, Ari, and thank you everybody for joining us today. As Ari mentioned we're going through our financial results for FY20 and joining me here today is Robert Spurway, our Managing Director and CEO and Ian Morrison, our CFO.

After the call we'll have an archive of the webcast which we'll put up on our website. I'll now hand over to Robert.

Robert Spurway: Thank you, Luke, and good morning, everyone. It's Robert Spurway here, Managing Director at GrainCorp. Indeed, good afternoon to those of you that are joining from time zones outside of Australia. Before we get into the presentation, I just wanted to take a couple of moments to reflect on my first eight months at GrainCorp. I've had 25 years in the food and agriculture industry and one of the features of that industry is the resilience of people and I've seen that loud and clear at GrainCorp. Our people, our growers are incredibly resilient.

I've seen really great progress and I'm pleased with the result we've reported today in terms of the momentum we are developing across the business. In a word, there's a real sense of the business doing what we say we'll do, and I think it's important to reflect on the fact that when I first started there was still smoke in Sydney and a very severe drought. In fact, third year of drought across east coast Australia.

You'll see today our commitment as a more focused GrainCorp to be much more transparent about the business, the value drivers behind it and indeed the way we're able to comment on the future and the outlook and share with you aspects of our strategy.

We are confident about the direction the business is heading in and in terms of some early observations whilst it's been a disrupted year for many people around COVID-19, I've had the opportunity to get out and about around New South Wales and for a short period of time even into Queensland. And as a new Chief Executive when you go out and meet people across the business, the one thing that most people have done when I get to a grain site or a port is they take me to the top of the silo to see the view and over many, many months now what was really apparent from the top of those silos is just the quality and the extent of the crop that was in the ground at that point. And it's really exciting to see that now starting to turn into harvest. And I'll talk about that through the presentation as I saw that firsthand just last weekend up in northern New South Wales.

The other really compelling observation from the top of some of those towers was particularly at our ports and that's the unique and incredibly high value nature of the integrated assets we have. We are extraordinarily well placed to collect grain in Australia, connect it through rail and through our port exports and port facilities and export it extremely efficiently. That combined with the wider assets we have in the business and our passionate capable team is something that's really stuck with me in my first few months in the business.

So, as we get into the results I hope you can see that commitment to greater transparency and the excitement and growing excitement we have about being in to harvest on east coast Australia but at the same time the momentum and focus we're seeing across all parts of our business.

For those of you following the presentation we'll just move to page 4 now which is headed GrainCorp at a glance. I thought it appropriate just to touch on that. We do have a set of high quality strategic infrastructure assets and we service customers worldwide. So beyond just talking about our reporting segments, I wanted to call out a few areas of the business. That integrated ECA network, the east coast Australia network is a leading bulk handling facility. It connects us with the world. It's supported by our processing assets which I've described previously as being best in class, particularly our facilities at Numurkah and West Footscray.

We're very pleased with the progress that we're making in our joint ventures and, in particular, the origination capability we have in Canada and indeed in the Black Sea and our international business has done a tremendous job improving our resilience in that space but also diversifying the number of markets that we trade with over the last 12 months, up from around 30 to more than 50 countries and over 340 customers.

If we move to page 5 which is the highlights. We are building momentum. It has been a year of transformation at GrainCorp. Our statutory net profit after tax $343 million reflecting the really significant work that's gone on in the business to de-merge United Malt Group. We've retained a stake in that business to provide additional financial flexibility. It's left us in a really strong position associated with the other restructuring like the sale of the Bulk Liquid Terminals.

We are a new leadership team. You'll hear shortly from Ian Morrison, our CFO, who despite being appointed to the role only a few months ago has nearly 10 years of experience in our business and is very well placed to join me on the Executive team to take us into the future.

If we look at our F20 performance, underlying EBITDA for the continuing operations, significant turnaround and uplift in momentum, $108 million up from a loss of $107 million last year. That financial performance as I touched on in the opening is despite the third year of severe drought and I think it's very important we remember that as we get into the excitement of the harvest currently underway.

We are delivering on our promises. We've followed through on the operational initiatives and we've delivered those and continue to see momentum as grain moves through our network particularly in the agribusiness. We're delighted after two years to be able to declare a dividend of $0.07. I'll talk more about that as we get into the presentation.

We are well positioned for growth and for the future. As I said we've got a strong set of assets. We've got a conservative and very appropriate balance sheet with minimal core debt. We will talk about the confidence we have in the crop and the outlook and what that means, not just for F21 but F22. And we're also seeing strong global demand for grain and oilseeds and Australian prices are very competitive in the world at the moment. So that's a strength we have right at the moment going into the current financial year.

Moving to page 6 just the headline summary. I've touched on the NPAT and the underlying EBITDA. We've also reported a small loss, an underlying NPAT from continuing operations at a normalised level. As I said, really a feature of the drought but strong momentum that we're seeing in the business. The $0.07 dividend after two years represents the benefit of the Crop Production Contract the payment we received there, the strong balance sheet core debt of only $37 million and indeed it's a sustainable approach to our confidence in our future earnings and the business outlook.

Also want to touch on safety. It is critical to what we do. Of course, people make up a business and keeping our people safe and continuing to see that improve is an important part of our priorities.

Moving to slide 7, COVID has been extraordinarily disruptive for many people and many sectors of the economy. GrainCorp is in a part of the economy as the food and agricultural supply chain that's essential and somewhat isolated from that. However, we've worked very hard to make sure we protect our people, protect our business and in doing so protect our future.

I want to call out a few things that we've been able to put in place through the year and indeed it moves to the heart of the capability and the innovation we have in some of our digital products that we've been able to accelerate the adoption of CropConnect and FastWeigh and move to a contactless harvest this season. That means it's a COVID safe harvest for our people and our growers and it's also a more efficient harvest and I think ironically something that we've been able to accelerate as a result of really focusing on those safety aspects and efficiency aspects.

Showing the confidence we have, we have employed over 3000 harvest casuals not only as we gear up and prepare for but as we now get into the 2021 harvest. Importantly, through the year we've sought nor received no government financial support. Again, underpinning the resilience of this business across all of our operating segments.

Just on page 8 around safety, I have a personal and absolute belief that all injuries are avoidable and GrainCorp's belief as a commitment to zero harm. So really pleasing to see the improvement in our frequency rate across all types of injuries. That's really driven through the culture we're driving throughout the organisation, the strong safety management systems that we continue to invest in and improve and importantly it's about supporting the health and wellbeing of our people. And indeed, this year we've made sure that that also includes the mental health and wellbeing of our people in a year that's been somewhat disrupted for many.

Sustainability on page 9 is fundamental to everything we do at GrainCorp. It's critical to our grower success and, of course, to our future. We're enormously proud of some of the progress that we've made this year and I want to call out a few examples of how that's being embedded in our business. FutureFeed which we've talked about previously is a partnership with CSIRO. We genuinely believe it's a gamechanger in the animal feed industry and as that comes to commercialisation the opportunity to have a product that materially cuts methane emissions in the animal feed sector and increases productivity is exciting to be a part of.

Diversity and inclusion is part of our commitment to wider ESG initiatives but is also a big part of GrainCorp and we've got some fabulous diverse people across our workforce. This year we launched the Accord Program which is an initiative to develop and celebrate women leadership across our business.

The Crop Production Contract I'll talk about specifically. That is unique. It's a very valuable product delivering what we expect it to. By smoothing our cash flows, it provides enhanced long term decision making and an important part of our sustainability strategy. We've also continued to support community, supporting the silo art movement and engaging with communities including through sponsorship. And as I touched on earlier supporting the recovery from the bushfires in Australia.

Today, however, though is of course the focus on F20, the financial year '20 results and the financial results. One of the things I'm really delighted with as I said is the momentum in the business. But on page 11 as you can see the improvements are right across the business in all areas that we report. So that's very pleasing. It's great to see that momentum and it's great to see our teams delivering on those commitments that we've made.

I'm going to hand across to Ian Morrison now who you'll be hearing from for the first time and he'll provide a little more detail as we've committed to, around the segments, the way you should be thinking about the business and indeed the outlook associated with that. So over to you Ian.

Ian Morrison: Thanks, Robert. Now turning on to slide 12. This slide shows bridge for underlying EBITDA from continuing operations from FY19 through to FY20. I'll just step through a few of the items on the bridge here before covering more of the details on the agribusiness and processing segments as we turn to the operating segment slide.

The first item just to briefly highlight on this bridge, on the far left-hand side in the agribusiness segment is the impact of Australian Bulk Liquid Terminals which was divested earlier this year. The FY19 reported result does include the EBITDA from the Australian Bulk Liquid Terminals business and FY20 includes a partial contribution. We've set out the relevant year-on-year numbers on slide 13 and you'll also note in one of the appendices to the presentation that we've included a pro forma view of earnings to remove Australian Bulk Liquid Terminals along with some other items to provide a clearer view of earnings on a comparable basis.

The next items on the bridge I just wanted to cover off here are in the corporate segment. You can see in the bridge the benefits from delivering on our operational initiatives to reduce costs following the integration of our grains and oils businesses as well as the benefits from the demerger. Also included in corporate is the impact of fair value movements on the retained stake in UMG. So, we've highlighted that there on the bridge.

The last item I just wanted to touch on in this slide is the year-on-year impact of the implementation of AASB-16. That's the new leasing standard which many of you will be familiar with. Again, we've set out more detail in an appendix on the impact of this standard across the various operating segments.

I'll now move on to slide 13 to provide some further detail on the agribusiness segment. We've seen a significant improvement in the financial performance in this segment and that's despite the continued drought impacting grain handled tonnes across our east coast business.

The underlying EBITDA on a pre-AABS 16 basis increased from the prior year loss of $94 million to a gain of $52 million. I'll just touch on the three main drivers behind this year on year improvement. Firstly, FY20 was the first year of operation of the Crop Production Contract and with the lower production the CPC resulted in a positive P&L impact of $47 million. That's really showing its value in underpinning and smoothing earnings and cash flows during a drought affected year.

Secondly, we also saw the benefit of a new risk management framework. Although we have seen trade disruptions continue to an extent in FY20, the new risk management framework has seen us navigate those disruptions and avoid the losses that we saw last year.

The third key driver and the most pleasing aspect of the agribusiness result in FY20 is the delivery against our operational initiatives. The agribusiness result demonstrates the strong progress we've made against those initiatives including the implementation of our new rail contract in FY20 and the continued focus on reduced operating costs across our business.

The last element I just wanted to touch on on this slide is the additional detail we've provided on the right-hand side to give some more insight into the key business drivers. In particular for our east coast grain handling business, we've provided a view of total grain handled including the impact of opening and closing grain levels in the network. Again, we've also included some additional detail in the appendices on east coast grain flows to provide that additional insight into the relationship between production and the tonnes that we handle.

Moving on to slide 14 which covers our processing segment, it's pleasing to also see a significant improvement in the financial performance relative to FY19 and underlying EBITDA on a pre-AASB 16 basis improved from $16 million to $40 million. The main contributor to the improved performance is in relation to the crush and that's both from a volume perspective and crush margins in the oilseeds business.

Firstly, on crush volumes, that improvement has really come from a focus on delivering the operational performance at our Numurkah plant and that's post the capital investment into the plant to deliver a capacity upgrade that was completed in early FY19. We've seen the plant operate at good utilisation levels throughout FY20.

On crush margins, although the continuation of the drought in FY20 did see low east coast seed supply again, the FY20 crop was larger in Victoria and that did lead to a reduced freight cost execution into Numurkah. The crush margins year on year also benefited from higher meal values associated with strong demand. As a result of the drought we did see strong oil values continuing.

In our foods business, we've seen steady demand on value added products and we did see a modest increase in demand through the initial period of COVID-19. The focus on operational efficiency across our foods plants has also been pleasing and supported the solid performance in FY20.

Now moving on to slide 15 and our balance sheet. We finished the year in a strong core debt position of $37 million. I did just want to spend a few minutes talking through how we think about the debt position at GrainCorp. The primary debt metric we focus on is core debt and this is the more typical metric for debt in the global agricultural commodity space.

The reason for this is due to the nature of commodity inventory and the fact that it is readily marketable. Commodity inventory does move up and down with a crop and harvest cycle and also with grain values. At FY20 closing net debt of $239 million is lower than normal and that's with the low levels of grain held across the east coast at the end of the drought.

Looking ahead to FY21, we would expect to see an increase in net debt as we see increased commodity inventory holdings associated with a larger harvest and we also would anticipate seeing an increase in core debt with increased working capital requirements around that larger harvest. Also noting the anticipated payment under the Crop Production Contract with the majority of that in the first half. Lastly, we do continue to hold a stake in UMG which provides us with additional balance sheet flexibility.

Moving on to slide 16 and CapEx. Agribusiness and processing segments have both seen significant capital investment programs which largely completed in FY18 and the last two years has seen a more disciplined capital investment focus and really the focus has been on delivering the returns from those investments. We did see increased capital investment in the second half of FY20 and part of that was really around harvest readiness as we invested into tarpaulins and equipment of approximately $10 million ahead of the larger crop.

On the right-hand side, you can see that depreciation is high relative to the sustaining CapEx after the significant capital investment program. Depreciation did peak in FY18 and we're now seeing that come down and we'd expect to see that continue. The high D&A relative to CapEx is supportive of strong future generation of cash flows relative to NPAT. I'll now hand back to Robert.

Robert Spurway: Thanks, Ian, and as Ian touched on there's additional detail in the appendices and we'll certainly be available to answer any questions at the end of the presentation.

As I look to the future and the outlook and strategy, it's exciting to be able to share aspects of our strategy with you today. But I want to start with slide 18 which is our Crop Production Contract. It's a product that we remain very pleased with. It's delivering what we would expect it to and providing that smoothing of earnings. I've been asked many times over the last eight months what I think of it. So, I'm taking the opportunity to share that with you again today.

It's a unique innovative and valuable product. It's paid a gross payment in FY20 of $58 million. And yes, in the outlook we expect to pay out $70 million this coming year based on the ABARES forecast of a crop at least as big as 24.4

million tonnes. That's a great thing. The reason for that and the chart kind of indicates that is as we start to trigger payments that are due under the Crop Production Contract we are moving well into an export task. At that point, we make more than enough margin to cover the cost of the payment. It's value accretive throughout the range and a very useful product.

Moreover, something that I think that sometimes gets overlooked is across the aggregate variate of the 10 years there is a cap at $270 million. So, a few years in a row is also a good thing. As I said we're very happy to be paying out this year because it means the underlying benefits to the business are even greater.

I now want to move to slide 19. This points to really doing what we say we would. It's a slide that we used in the demerger scheme booklet and a diagram there really talking about the way we think about capital management and dividend. As I said in the opening, it's exciting to be able to pay a dividend of $0.07 fully franked. It really points to the benefits of the Crop Production Contract that $58 million gross payment in the year, our strong balance sheet and low debt levels. And indeed, it's a sustainable way to think about our confidence of earnings into the future. We are delivering on what we said we would.

Moving to slide 20, in terms of the outlook, the other question I'm sure on everyone's mind is what does the crop look like? The crop looks very strong. So first up I'm not going to get into second guessing the ABARES number. In early December, ABARES will come out with an update to their September forecast of 24.4 million tonnes. However, right now, we're into harvest and we're seeing what's happening and we're very confident about the amount of grain coming into our network based on what we see as a very significant crop across east coast Australia.

We've seen good yields. We've seen good quality and as of last night we have already received into our network 3.9 million tonnes and that is growing by, at the moment, about 300,000 tonnes a day and it's very busy across our network and northern New South Wales. As the crop and the harvest move south into southern New South Wales and Victoria, we expect those trends to continue.

So, without second guessing the overall crop we're focusing on making sure that we're exceeding grower expectations and delivering what they expect so that we see strong volumes coming into our network. But in summary, we would have to say that the crop is shaping up to be very similar at least to the FY17 crop, which as many of you recall was a record crop particularly across New South Wales.

The other thing I want to touch on as often you see headlines about the weather and of course the weather affects all growers, and it affects us. There were reports just a few weeks ago about rain and hailstorms and the damage that had done to crops. Put simply, we're not seeing the impact of that coming through our network based on the scale of the crop. Indeed, quite the contrary.

In northern New South Wales and Queensland, recent rain has created ideal conditions for a much stronger summer or sorghum crop than we might otherwise have expected. And when I was up there only a week ago it was pleasing to see sorghum crops already in the ground in parts of northern New South Wales. And we expect many growers will be following over the summer period as conditions allow.

What that means for GrainCorp, it will certainly benefit FY21 but as Ian touched on we've shared more detail about how to think about inventories in the system, the impact of carry and the likely benefit a strong crop will provide towards F22 as well.

Across the broader business, the higher volumes of canola coming in see an opportunity in procurement and efficient procurement of seed giving us the confidence around the ongoing progress that we've seen in our crush margins. But also, I want to comment that we do operate in a highly competitive market in foods. It's been good to see us deliver on the efficiency so that we're able to really leverage the capability of those assets and compete for utilisation in those assets. We expect that competitive nature of that sector to continue but the team are doing a great job responding and winning in that space.

I guess, in summary, we're confident in the crop and we're confident in the momentum that we're reporting this year in the business and how that will translate across F21 and FY22.
If we move to slide 21 this is really one of context as I introduce our revised strategy and I appreciate that some of you are seeing our strategy for the first time. I want to move quite quickly through this slide because it really points to the industry fundamentals that are so attractive in terms of the space that GrainCorp operates in. So, we're all aware of those macroeconomic trends around the rising middle class, developing regions, increasing rates of urbanisation. The shift towards improved dietary preferences that play into the areas that GrainCorp operates in and indeed, the demand for quality and transparency across supply chains, areas that GrainCorp does and can continue to deliver on.

If we look at the charts on the right, again, growing population, a growing appetite and production of wheat and barley, but also in our oils business impacting our processing area is strong growth for vegetable oil consumption globally but importantly even greater proportional growth in South East Asia, a market that we're ideally placed to serve and currently do so.

So, moving to slide 22, just before I get into the detail of this, it is exciting to be able to for the first time share our strategy and the way that myself, the Board and our management team are thinking about the business. I've taken the opportunity in the first eight months to listen to what our investors and stakeholders are saying, to review the strengths and weaknesses and frankly the areas where we've got a right to win across the business.

I hope today you've seen a response to that exercise of listening and reviewing in terms of the transparency and the commitments that we're making today. Importantly in our strategy, it is about lifting our return on invested capital. We are doing better in that space and we need to see that trend continue.

Whilst we are focusing on areas where we've got a right to win and areas to grow, we are not losing sight that strengthening our core as we call it, lifting returns, leveraging our existing capabilities and driving assets is critical to what we do. Partnering with our growers, realising that they are fundamental to all areas of our business is a part of that strategy and we would expect to continue to deliver cost reduction, simplification, efficiencies and indeed more specific initiatives like optimising the bulk material portfolio.

Just to give you a bit of colour on what I mean by that. Through the drought, our resilient team looked at ways to reverse our network, handle products like woodchips and cement and other non-grain products. It's given us appreciation that even in large harvest years there's latent capacity that we can use to good effect to generate earnings and we'll continue to do that even as we recover from the drought.

As I move to the very exciting areas where we've got a right to win, it's about building credibility as we grow. We see opportunities adjacent to our existing supply chains and indeed integrated and vertical in our existing supply chains around animal nutrition, digital and agtech, alternative protein and indeed additional grower services as we partner with them and win in the market in terms of directing grain into our network.

Just a couple of examples to be a little more specific, you've heard me talk about the FutureFeed initiative and the leverage that that might bring to our existing animal feed capability in Australia and New Zealand. Digital and agtech is an area we're already delivering on and we see an opportunity to accelerate and leverage outside our existing business. CropConnect, FastWeigh and the associated applications are valuable not just to our growers but to GrainCorp and our wider business.

Alternative protein, one of the things we often talk about is our processing business and the obvious product in that is canola oil. But there's also the meal. As I touched on in one of the previous slides, higher volumes may mean meal comes under pressure in terms of pricing. But we see a real opportunity over time to invest in and explore innovation that resets the way the world thinks about canola meal as an alternative and much more valuable protein.

So, look in summary we'll be looking for areas where we've got a right to win. We'll be looking to areas where we can credibly build the business in a sustainable way.

Before we move to questions, just the final slide at page 23 around really delivering on our promises as we not only prepare for a significant crop but get into it. You've seen us today report a substantial lift in our FY20 financial performance despite the drought.

We continue to report a proven balance sheet with minimal core debt and our commitment to maintaining an appropriate balance sheet into the future. We are well positioned with a high quality integrated network of infrastructure assets supported by a passionate and extraordinarily capable team of people operating them and bringing them to life.

Our revised strategy does not lose sight of the importance of the core of our business and continuing to grow that momentum whilst at the same time using innovation and targeting growth opportunities. We are pleased after two years to be able to declare a fully franked dividend of $0.07. As I said that reflects the Crop Production Contract benefits, the strength of our balance sheet and indeed our confidence in the sustainability of future earnings.

As I said, before we move to questions whilst there's many of you on the call are probably not out in fields harvesting grain, I do want to make a particular call out to the people in our business and in particular our growers. They're working hard at the moment. We do wish them the very best for a safe and prosperous harvest as it proceeds. So, Luke or Ari I might hand back to you to moderate questions and we look forward to talking with you.

Operator: Thank you. At this time if you'd like to ask a question please press star then one on your telephone and wait for your name to be announced. If you wish to cancel your request please press star then two. If you are on a speakerphone please pick up the handset to ask your question. Our first question is from Alex Karpos of Goldman Sachs. Please go ahead.

Alex Karpos: (Goldman Sachs, Analyst) Hi team. Good morning. Can you hear me?

Robert Spurway: Yes.

Alex Karpos: (Goldman Sachs, Analyst) Great. Look, first question is really just on the outlook commentary and I appreciate your colour about not wanting to, I guess, provide a new guidance in lieu of ABARES there but commentary about a harvest similar sized to FY17 implies about a 15% upgrade to that ABARES number. Am I thinking about that too much or is that the right way to look at it?

Robert Spurway: Alex, look, I'll reiterate what I said. I don't want to get into second guessing ABARES. To put it in perspective I think it's more important you think about the benefits and the grain coming into the GrainCorp network. That 3.9 million tonnes I spoke about, the fact that it's increasing by more than 300,000 tonnes a day means that we there or thereabouts have collected as much grain as we did in the whole of the last season.

What we will do is, on our website we provide fortnightly updates of grain received and I think we'll be in a much better position at our AGM on 11 February to talk about the crop at that stage which will be largely completed in terms of harvest and the greater confidence we have around financial guidance and implications at that time.

Alex Karpos: (Goldman Sachs, Analyst) Got it, and maybe on the dividend, it came in earlier than I think some of us we're expecting. Obviously, a good sign for the business. Can you maybe walk us through the thought process there and what we should read for that as, again, for the broader business?

Robert Spurway: Yes, look, I'll recap what I said. I think it's showing our confidence and how pleased we are with the way the Crop Production Contract is working. The financial benefit of the $58 million gross payment in the year. It also points to the strength of our balance sheet and indeed our confidence in that being an appropriate place to work through the cycle. And as Ian said, debt levels and net debt levels in particular will go up and down particularly in a larger crop.

But really in terms of thinking about it, it does point to a sustainable way to think about the confidence we have in future earnings as we get grain through the network and we're able to demonstrate the benefits of the operational initiatives in full and the efficiency of our network as we get into an export task.

Alex Karpos: (Goldman Sachs, Analyst) Great, thanks, that's it from me.

Operator: Thank you. Our next question is from David Pobucky of Macquarie Group. Please go ahead.

David Pobucky: (Macquarie Group, Analyst) Good morning, guys. Thanks for taking my questions and thanks for the improved disclosure and greater colour on the strategy. So, look a very positive outlook commentary. Could you walk me through what sort of operational leverage you'd have under FY17 volumes and I suppose talk through the benefit of exports as well please?

Robert Spurway: Sure, I'll make some initial comments and then Ian can follow through. Look, in terms of you've touched on it already, David, the real benefit is in terms of the export task and we already have ships booked arriving over the next couple of weeks and then continuing through the year across all of our port network. So, it's exciting to see that opportunity. You know rather than talking about the specific financial outcomes of that I think the drivers are pretty clear.

The other thing that I'd comment on is this year in a COVID environment, rather than doing face-to-face grower meetings we did grower webinars. I had the opportunity to attend many of those and one of the key questions coming through from growers was their observation that GrainCorp appeared to be more competitive in the prices we're offering this year. And the reason for that was pretty straightforward, it's the hard work and the restructuring and the investment that's gone into the network over the last three years and importantly, the confidence we've got in the stronger volume and the efficiencies that come into play when GrainCorp gets into export.

The way we can connect our up-country network principally through rail but also through attractive road rates to our ports really shows through in terms of how competitive we can be in the market and the benefits ultimately it will bring to the business. Ian, have you got additional comments to make on that question from David?

Ian Morrison: Yes, sure I can just add a few comments of elements to think about, David. One of the elements to think about in a larger crop year and the leverage is the impact of carry. In a larger crop year, we do see carry levels tend to increase which means some of the leverage you'll get from a larger crop will flow into FY22. So that's just one of the elements I'd encourage you to think about. We have included some extra detail in the appendices on slide 26 and 27 and I think that will also give you a bit of guidance on how to think about it.

David Pobucky: (Macquarie Group, Analyst) Great, thanks. Just a couple more from me. Is there any risk with the current [unclear] in terms of the harvest being pushed back if rainfall was heavy enough or any impact from quality impacts and how that might impact GrainCorp if that did come through?

Robert Spurway: Look, David, weather is always an impact if you're in the ag sector and you're a grower and that's why they're very busy at the moment making the most of the fine weather that they're seeing. We haven't seen any significant impact of the rain that I spoke about. It was [reported] a couple of weeks ago.

The overall conclusion to the crop is always conditional on weather and how it plays out. What we've seen though is very favourable conditions through spring. We're seeing favourable conditions for harvest right at the moment and in terms of the impact on GrainCorp we're somewhat resilient to it. So, whilst quality is holding up very well at the moment, rain ironically can actually create opportunities for GrainCorp as we see quality move around.

So, look, I think it's a - it might impact the very top end of the range in terms of what could otherwise turn into an exceptional crop. But we can't see any scenario where you wouldn't see upside to current expectations on crop. Ian has been around for nine or 10 years. Ian any further comment you want to make on that?

Ian Morrison: Yes, the only other comment I'd make is it can have some impact on your costs through the harvest if you get a more interrupted harvest as opposed to a smooth flow. So just from an efficiency perspective but that doesn't tend to be too significant unless it's really heavily interrupted.

Robert Spurway: And indeed, some of the engagement we're doing with our growers at the moment, David, we're hearing that they're very pleased with the service levels being provided by GrainCorp. That's I think a call out to our teams out in the operational areas. But also, that from a logistics point of view, some of them may well continue to deliver grain well after its harvested as they clear out temporary storage. So, farmers are really focused at the moment on getting it off the field and then realising with a big crop the export efficiency that GrainCorp brings puts us in a good space.

David Pobucky: (Macquarie Group, Analyst) Great thanks. Sorry just one last one, just on corporate costs, is the annual target there $14 million to $15 million per annum? I think I recall corporate costs in the first half were zero, but they were reduced by the fair value adjustment for UMG, I think. So, they've come in at $14 million. Would you mind just running me through that $14 million number please, Ian?

Robert Spurway: I'll let Ian speak to that.

Ian Morrison: Sure. I'll just talk through that for a second, and you're right to note that the fair value amendment on UMG does flow through the corporate segment. The $14 million number for FY20, the second half element of that is approximately $8.5 million. We'd probably see something in that order on a continuing basis which would be approximately $10 million lower than what we've seen it in prior years. We'd expect that to be sustainable on an ongoing basis.

In the detail, in the appendices around the delivery of our operational initiatives, we do have $20 million in total in terms of benefits against overall corporate costs but a fair portion of those, approximately half of those, would flow into the operating segments in terms of the - where the costs sit.

David Pobucky: (Macquarie Group, Analyst) Right thank you very much. That's it for me.

Operator: Thank you. Our next question is from Apoorv Sehgal of UBS. Please go ahead.

Apoorv Sehgal: (UBS, Analyst) Good morning, Rob and Ian. Congrats on the momentum you're seeing so far through the business. Maybe just a question on the results specifically. If I look at the agribusiness EBITDA, it looks to be in a slight loss in the second half of '20. Could you just talk through the drivers there and where there's some - I'm guessing there might have been some costs in relation to preparation for the FY21 harvest.

Robert Spurway: Yes, I'll let Ian speak to that. There was a small amount of that. I wouldn't describe them as material in the overall. We do typically see a bias towards the first half. We spoke about that clearly at the half year results. I assume you've backed out the benefit of the Crop Production Contract also paid in the first half. But Ian, any additional comments from you?

Ian Morrison: Yes, historically in the agribusiness segment we would see a leaning towards stronger result in the first half and that's typical from just a tonnes handled, or grain handled perspective. The other aspect we did see in the second half with the prospects improving for the FY21 crop, that did see the import or trans-shipment program slow down towards the Q4. And as you touched on, the other side of that was the additional spend we had around preparing for the upcoming harvest. So, you do see a little bit of the costs flow into FY20 in harvest readiness through elements like maintenance and bringing on of the casuals and training them ahead of the harvest.

Apoorv Sehgal: (UBS, Analyst) Got it. And if we just look beyond just FY21 and 22. Can you just talk through some of the initiatives in place to try and deliver better through the cycle earnings and lifting returns and capital. And I guess on that point how can we think of the ramp down of the elevated D&A levels as well over time?

Robert Spurway: Ian you might like to talk about '22 but just responding to your question around the D&A levels. I think the chart on page 16 does that where you've seen a fairly definitive trend since '18 where as Ian said there was a peak of investment. We would expect that trend to continue. So, if you look out over the next two to three years of disciplined capital management and our commitment to essential capital being in that $35 million to $45 million range, the trend will continue, and I think that's pretty transparent. Ian your further comments on the impact of a better crop through '22 and through the cycle earnings.

Ian Morrison: Sure. It's difficult to talk to it from a financial perspective but what I will highlight is on slide 27 in the appendices, the way to think about a larger crop in FY21 is really the impact it has on carry. And when we think about the impact of production onto GrainCorp supply of grain in any given year is what's the biggest driver towards our grain handled. And that supply is largely made up of production but opening stock levels is the other contributor. So that's where the benefit from a larger crop does partially flow into the following year from that larger opening carry. It's not just in our network but right across the east coast.

Robert Spurway: And I'd just add that that carry - and another way to describe it is inventory in our system for an extended period of time, and that gives us the opportunity to leverage storage charges on those that own the grain and are using our network. So, another form of income that's not available in lean years.

Apoorv Sehgal: (UBS, Analyst) Understood. Thanks guys.

Operator: Thank you. Our next question is from Grant Saligari of Credit Suisse. Please go ahead.

Grant Saligari: (Credit Suisse, Analyst) Good morning, thanks and thanks for the additional disclosure. Wondering if I just draw your attention to slide 25 which I found quite helpful. I mean I think what you're saying here is that if I compare new GrainCorp or current GrainCorp with what I recall pre-FY18, I mean you're calling it out an EBITDA uplift in underlying terms of up to $125 million. Sort of a bit of a rough allocation of that between what's achieved and what might be to come. I mean my really rough ballpark numbers would suggest there's still something like maybe $20 million of EBITDA improvement to come maybe through '21 and another $15 million or so through '22. I'm just wondering whether you could comment on the time [phasing], what's been achieved and what might be still to come in that slide 25?

Robert Spurway: Good morning, Grant, and thanks. Look, I think you've summed it up pretty well. We've been fairly descriptive in the status of the initiatives and many of them have been delivered in full. Some of them are still in progress and some of them will benefit fully from leveraging the grain that's in the network. That's where many of them, where many of the benefits come from.

A few to call out the $10 million to $20 million that we've talked about in the international business. That certainly will start to flow through '21 particularly, but fully in '22. In particular, our GrainsConnect Canada joint venture. We've talked about the completion of the Fraser Grain Terminal which will complete. That very efficient and I think competitive network we've got that has efficient up-country network, unique and competitive rail contracts. Once the ports finished in the first half of '21 we'll see the full benefits of that JV start to flow and those numbers are contained there in the middle of that page.

The other thing I spoke about is beyond this, we do expect to, as part of our growth strategy and our focus on the core, continue to identify areas for simplification and improvement and ultimately revenue generation in addition to this $90 million to $125 million that we've previously shared and updating you on our progress on that.

Grant Saligari: (Credit Suisse, Analyst) That's helpful, and I think as you said some of them are volume dependent, but I guess if I drew a line through the midpoint of your estimate and said well that's the improvement we should expect in a normal crop I guess that might give us some indication. Would that be a fair assessment?

Robert Spurway: Yes, look I think that's fair, Grant. Some of them might be a little higher than that. Some around the mid-point and it will vary a little bit depending on the amount of grain. But overall, we're very confident in that description of where we're at, the commitment we made and our ability to fully deliver on that through '21 and '22 given much of it's largely completed.

Grant Saligari: (Credit Suisse, Analyst) Okay thanks for that. A second question I had is we did hear a bit of noise around China trade and there's also been quite a poor crop for a couple of years or particularly this year out of Europe. So just wondering your assessment of both of those factors on the grain trading outlook for Australian growers.

Robert Spurway: Yes, look I've said generally we're seeing good demand for Australian grain across the board. Current prices mean that Australian grain is competitively priced in most markets and frankly that's a natural hedge against the risk of any uncertainty or volatility associated with China or any particular market.

I think any further disruption with China would be pure speculation. We're not going to be drawn on that and in fact we're not seeing it with the counter parties that we have in place and the trades that we have done. But if there were to be further disruption there is a natural hedge given the competitive nature of - or competitive prices of Australian grain.

So that's not a feature or a concern that we have in our outlook. Indeed, as I said, our international business has done a very good job particularly on wheat but across all grains of diversifying our book. And that's a strategy that we started on more than 12 months ago. So, it's certainly not in response to a geopolitical disruption. It's just something that we've been very successful in making progress on.

Grant Saligari: (Credit Suisse, Analyst) Okay and just if I could sneak one additional question in if there's time. The processing business. A number of other companies have called out costs associated with managing through COVID-19. I notice you called out I think pretty strong demand for that business but is there anything to comment on in terms of management impact, cost impact through processing of the other parts of the business through that COVID-19 period?

Robert Spurway: In a word, Grant, no, our business has operated completely uninterrupted. I think being an essential food business gave us a level of protection and interestingly the processing division with operations in particularly New Zealand and Victoria, we were able to get a head start on others I think in terms of how to implement processes that didn't disrupt the business or add cost but kept our people safe and importantly met full compliance requirements with the various government jurisdictions.

So, in New Zealand, early on back in late March, early April when there was a full lockdown there, we were audited and passed that. We were able to leverage those sorts of learnings to make sure that our bigger facilities in Victoria were able to operate in an uninterrupted but safe way in line with government requirements.

Grant Saligari: (Credit Suisse, Analyst) Okay. All right. Well thank you that's very helpful.

Operator: Thank you. Our next question is from James Ferrier of Wilsons. Please go ahead.

James Ferrier: (Wilsons, Analyst) Hi, good morning, guys. Thanks for your time. First question perhaps for Ian, on the CapEx slide in the deck today I don't think there was any reference to growth CapEx expectations for FY21. Could you just add a bit of colour to that?

Ian Morrison: Sure, James. The one element I just did include on one of the slides. I think it was on slide 15, the piece we do have is not CapEx as such but it's an investment into our joint venture in GrainsConnect with the completion of the Fraser Grain Terminal expected in the first half of FY21. We will see the final equity instalment into that joint venture of approximately CAD23 million so that's the main growth CapEx in our lens or line of sight for next year at this stage.

James Ferrier: (Wilsons, Analyst) Okay and perhaps stating the obvious that's a cash payment?

Ian Morrison: Correct yes.

James Ferrier: (Wilsons, Analyst) Yes, okay. Second question just around that comment earlier with Grant's question around the COVID costs and the fact that in the foods business with the processing you've got on one hand ,very strong demand but on the other hand, I think in the document today you were talking about the food business being very competitive. Those sort of comments seem somewhat at odds in terms of how it flows through to profitability.

Robert Spurway: No, look, I don't think so at all, James. We talked about this at the half year that one of the opportunities that I observed early in joining the business was our foods business and in particular our West Footscray facility had utilisation that we wanted to improve. But what we're really saying is that that's - those customers need to be one and we need to compete for that business.

The efficiencies and the initiatives that have been driven through the business put us in a position to be able to compete for business and you may have seen through the half we did announce a partnership with Upfield which is new business that's coming into that facility based on our competitive offering. So, I think really what we're calling out is we do operate in some competitive spaces relative to for example the agribusiness, which is much more about production, but I think we're well placed to respond and compete in that context.

James Ferrier: (Wilsons, Analyst) Okay, that's helpful, thanks. Next question probably for Ian again, looking at note 1.3 around the other income and in particular the net gain on derivative commodity trading. Obviously, it's a very very big turnaround from '19 into '20 and when you back out the component of that that relates to the Crop Protection Contract, it's a circa $50 million positive result. Am I right in saying that that's effectively a proxy for the profitability of the grain marketing or grain trading business in the financial year?

Robert Spurway: James, I think a better way to describe it would be the fact that we had some very disappointing losses in the trading result in F19. What I've been pleased with is the very robust and improved management risk frameworks and controls we've put in place that are right across the business. We have seen a year where there's been some volatility in global markets but there's been a, as you say, a very significant turnaround in that business despite having to navigate that volatility. And we're very confident that that reset and the controls we've got in place give certainty and confidence about the reliability of that business to perform and indeed the upside that's available to it for a year of reset and recovery from those losses in '19.

James Ferrier: (Wilsons, Analyst) Yes absolutely, a very impressive turnaround. On the grain receivals, just looking ahead now, the grain receivals number of 3.9 million tonnes, Robert, I'm curious as to what sort of feedback you're getting from your team on the ground as to how they're viewing the harvest this year in terms of timing. Is it a couple of weeks late, a couple of weeks early or do they feel it's sort of more or less average in terms of timing?

Robert Spurway: Look, everything in the world is relative and if you compare it to F17, rather than this year being earlier, I think this year is more normal and F16 and 17 was a little later in terms of when the crops were planted. So, I think what we're seeing is very strong growing conditions through spring coming through. It is ahead of where we were in '16, '17 but also, we've really only seen harvest well underway in northern New South Wales and that 3.9 million tonnes we've received is weighted towards those northern regions. And it's only over the last week or so that we've started to see southern New South Wales kick in and hit us out on the fields and harvest getting underway there. And we're probably only just starting to see the early receivals in Victoria. So, a long way to run through harvest. The curve is tracking as we'd expect it to, slightly ahead of '17 but more in line with what you'd say is a normal season but a much bigger season than normal.

James Ferrier: (Wilsons, Analyst) Yes, no, that's very helpful colour. Last question, one thing we've noticed about GrainCorp certainly in recent years but maybe it's been building for a bit longer than that, is probably a more customer focused approach to doing business. And one of the things I noticed on the website recently was one of the offers you have for grain growers this year is up to three months free storage.

I'm just curious around - and I think historically it's been - you get your first month free. So, I'm just curious around that offer and what the net benefits are. Obviously, you'd expect to attract more volume into the system offering something like that and you would hope that offsets the lower revenue. I'm just curious as to how from a commercial perspective you would arrive at an offer like that.

Robert Spurway: Yes, sure look it's a relatively small investment overall that attracts grain into our network, defers the decision that growers need to make about the multiple options they've got of where they sell the grain. So, you're right they get the month of delivery free plus two months before we start leveraging storage charges. That is just one of many initiatives we're focused on to be much more customer focused.

We're improving turnaround times at our sites. That's been well acknowledged and responded to by growers and indeed I'm very confident that you will see a significant uplift in our market share, not just as a result of the larger crop but that real commitment we've got to growers. Even at a personal level, I signed over 140 letters over the last quarter, thanking growers that had forward contracted with us and committed to our network. And I think the teams are doing a really good job.

Look, only this morning, I got an email from a very significant grower in northern New South Wales who made the comment anecdotally that people in the industry are talking about what a great job GrainCorp is doing servicing growers. One email doesn't make a trend, but it points to real confidence I've got about the progress our teams are making and the lift you'll see in our share and grain handled in a much larger crop.

James Ferrier: (Wilsons, Analyst) Great, that's terrific colour, thanks. Thanks very much, Robert.

Operator: Mr Spurway, I'd like to hand the call back to you for closing comments. Thank you.

Robert Spurway: Okay, thank you, Ari, and thank you again for everyone joining us. I would just make a couple of closing remarks. We are seeing improving results and we're pleased with that momentum. We will in terms of what you might expect from us in next steps continue to update on our website the grain received every two weeks. So, you'll see that resume and be out each Monday on a fortnightly basis.

I mentioned earlier we've got our AGM on 11 February and we will follow through on our commitment to provide even greater transparency around the crop and the financial implications of that at that point. We're also planning an Investor Day for early March, a little conditional of course on COVID restrictions but we'd really love to share more detail about our strategy and be able to show a number of you the assets, what they look like, how they're working and the confidence they give us in our future. So, thanks for your time this morning and have a good day, everyone.

Operator: Thank you. That concludes today's call. Thank you for joining us. You may now disconnect your lines.

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