TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to the Synlait full year 2020 results conference call. All participants are in a listen-only mode. There'll 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. Leon Clement, CEO. Please go ahead.

Leon Clement: Well, a very good morning to everybody and welcome to the Synlait Milk full year and Vista call for the 12 months in the 31st of July 2020. I'm joined here today by our relatively new chief financial officer, Angela Dixon, and our head of corporate affairs and investor relations Hannah Lynch. Great to connect with you all again. I know many of you are dialling in from across the Tasman and Australia, as well as around New Zealand. So thanks for everybody for joining the call today. Just in terms of flow, I'm going to provide a high-level update on the overall result and the achievements to date. I'll then hand over to Angela who will step us through the financials in more detail. And then I'll come back with a summary of our achievements and the outlook statement. We should leave some time for Q and A.

I understand many of you may want to get on a call in about an hour's time with regards to announcement from A2, so we will make sure that we finish on time to allow that to happen. Right, so today there's somebody who's announcing a solid and highly profitable result. Given the surrounding uncertainty and instability from COVID-19. Revenue is up 27% to 1.3 billion. EBITDA has also grown 13%, reflective of the strong, consumer packaged, infant formula sales grown 15% to around 49,000 metric tonnes. We've also had a very strong contribution from our elective fair run business with sales there growing 46% to 30 metric tonnes. Our impact has reduced this year to $75.2 million down 9% from FY19. And this reflects some of the additional investments that we've made into new facilities and acquisitions, over the past two years, to create new opportunities for growth.

I think it's really important that investors and the market understand this dynamic, as we started to create and diversify new opportunities for the organisation with some Vistas and setting up new capacity and capability to create those opportunities. And what we're carrying this year is the impacts of additional depreciation, additional borrowing and operating costs. And whilst that's hard to specifically quantify, we do estimate that the impacts, versus last year, is between 20 to $25 million at an impact level and this year's result. So I hope that provides some context for why both EBITDA is crying, but input is showing a decline.

Also, really proud of the contribution that we're making from a people and planet perspective. It's really important to somebody that we continue to milk differently for a healthier world and balance people and planet with profit, especially when we're facing onto some of these uncertain times with COVID-19. So without further ado, I'll hand over to Angela. Angela has been with us for just on three months now. She's brought a lot of great energy to the organisation. She was joking before the call that she's a simple country girl from down South. That she's definitely much more than that. She comes off a stellar career with Auckland airport, IAG and most recently public trust. So I'll hand over to Angela who's, in a very quick time, got a hit around these numbers. So Angela, over to you.

Angela Dixon: Thanks Leon. Good morning, everyone. This is my test results announcement to Synlait. As Leon just mentioned this, I've just passed my three months Mac. But I did manage to get a good look at this result, as I was here for the last six weeks of it. So on to the numbers.

So slide four, the results of the glance. As a result of a strong second half, EBITDA is up from 10% to 171 million. And you can see from the graph at the top right, that the momentum has been growing over the last five years, particularly in the last three. Total revenue is up 27% to 1.3 billion. And I'll speak to this more on the next slide. And as Leon mentioned, the input is 75.2 million, which is down 9%, driven by the depreciation and finance costs. Appreciation year on year has increased from 27 million to 48. As the build progressed then finances increased 127 million, from nine million to 21 million. At least interest was capitalised this year compared to previous years and more of it was used to complete out our build programme. The last graph on this page tipped out our investment journey and shows a significant uplift in the year of net as it was 409 million. This is a significant investment for the company. And as a result, we expected a lower return on capital employed, as we're at the conclusion of the investment phase, with the earning phase ahead of us.

Now turning to the next page, on page five, revenue momentum. As the revenue momentum continues, the graph on the top right shows that it has been building year on year with powder demand. This growth has been further uplifted this year with Dairywicks and Talbot Forest Cheese and a full year of our new liquid milk revenue. Most encouraging lift this year has increased 46% to 30 metric tonnes. Infant volumes continue to grow up 15% or approximately 6,000 metric tonnes from last year. And this has helped improve our mix and our business towards the higher value products. Interestingly, we saw a big increase in liquid milk and cream sales during COVID lockdown this year. But FY21 and beyond, revenue is expected to grow further through the acquisitions of Talbot Forest and Dairywicks revenues, adding approximately another 250 million revenue. But Synlait continues to build sustainable and reoccurring revenues.

Now moving to page six. So here, I'm just going to talk a little bit more about growing into our capacity. Total powder production was up 8% year on year. And our consumer packaged infant formula was up 18%. And with our elective fair on, we're now coming into full capacity and the focus will be on optimization. The rest to the right shows that the key build phases and FY11, FY16 and how the capacity was filled up in the years following. We have now almost completed our investment phase for FY20. And the revenues will grow as the customers are added through as our Vistas location strategy in the next coming years.

Page seven, note that presentation is complete without a cost slide. So I'll just step you through our cost increases for the year because there have been some. FGNA costs are up in the year for a number of reasons. Firstly, our depreciation increased, reflecting the completion of the refit of the Dem sandal and Christchurch offices and the cafe. 46 million was absorbed from the new acquisition of Dairywicks and Talbot Forest Cheese. That leaves us with a 16% increase, which is driven by new employees to run this new capacity as it comes online and resourcing our ERP project, SAP, which is now in full gear. Senior operating costs will reflect higher IT costs due to a greater investment in cyber controls, and higher software costs to ensure the connectivity that we needed to be successful during lockdown. And office upgrades, including our new China office.

One of the distribution costs of 1.4 million reflect optimising the Pocono as it came online. Private shares impacted us slightly. Annual leave increased as staff focused on servicing our customers. And also savings were enjoyed around travel training and conferences. We did, however, have more costs relating to cleaning and warehousing to support the export effort. Looking forward, our cost base is stable. The graph on the bottom right shows that the FGNA costs, as a percentage of revenue, has been flat year on year. And we will continue to focus on this ensuring we get the process and system improvements we need, as we mature our business.

Page eight, inventory. Probably a really relevant story this year. Our inventory has increased significantly at 63%, but there's some really good reasons for this. Dairywick and Talbot Forest inventory came onto our balance sheet and that reflects 53 million. Production of infant formula powder was made to meet growth demand that we saw through the year. And that added a further 27.5 million. And you can see this growth on the bottom graph on the right hand side and how inventories have always tracked growth.

Measure to understand whether that growth is appropriate, is their total revenue inventory to revenue ratio. And that's showing that it's slightly higher than this growth. And this can be explained with the 14 and a half million of extra infant based formula that we are holding, it related to COVID. At the start of the year, we had strong signals of demand, but this was later revised in Q3 and four as the demand was more uncertain. This has left us holding extra infant based formula then what we would have if, perhaps, COVID had not happened. Lastly, we're always maximising our milk curves and we produced infant formula on the shoulders of the season to allow us to fully optimise the higher milk peak in FY21 when we make the most of our ingredients.

Page nine, operating cashflow remains strong. Underlying cashflow is 127 million excluding our new acquisitions, Dairywicks and Talbot Forest. Operating cashflow was further impacted by the 14 and a half million of additional COVID stock that we have been holding. So the underlying is stronger than that. In contrast, our investment cash flows are now significantly declining now that we're at the end of the investment cycles. And the investment cash flows will reduce to previous maintenance levels going forward, that you can see on the graph, on the bottom right. After we've absorbed the last of our growth CapEx, [inaudible 00:11:27] and our SAP projects and early in the first half of FY21.

And lastly, our balance sheet, investing for the future. Protono, the liquid plant, Dairywicks, Talbot Forest are now all in the suite of assets to help diversify our risks and revenues. We have further diversified our debt to help accommodate this growth. As you will know, we released the retail bond of 180 million, pre-Christmas, in two ESG linked loans, which are delivering cost effective margins thanks to a strong sustainability performance. Total debt has increased 193 million. In contrast, interest in bank fees only rose from 18 million to 23 million in the year, reflecting lower based interest costs.

The outcome of this is that our leverage ratio is now at 3.1 times. It is under our four times cabinet cap and all our cabinets have been met in the year. Our banking syndicates continue to strongly support Synlait. With our recent facilities revised to roll over our working capital facility of 250 million for another year and advance to a further hundred million reducing to 70 million in January 2001, maturing in May to help with our seasonal cash flow and the first task outlook on customer demand. Our business plan for the year here is fully funded, but given COVID and the worldwide impact, this feasible continue to review our capital management and balance sheet. And in the short term, we will manage and focus carefully on cash and maintenance and ensuring maintenance CapEx is minimised. Thank you everyone. That's it for me and I will pass it to Leon.

Leon Clement: Thanks, Angela. I'm picking up at page 12, for those of you following along with the presentation. And there's just a summary of the achievements at a glance, but I'll walk you through it more detailed from here. But really no Synlai presentation is complete without some commentary on our core up for business. And it's really performed well this year for us. Many of you know, based on the keynotes to support additional capacity and capability as a large part of our strategic growth programme. That's in its establishment phase as we move to starting to transition it into higher product mix and driving returns for the organisation. We've got a new multinational customer opportunity

Being finalised. I'm really proud with some of the manufacturing excellence programmes that have contributed to our results this year and that continues to drive value for our organisation. I'll also give some commentary to Dairyworks and Talbot Forest. Those acquisitions have come through a settlement and establishment phase and they're well-placed to deliver on our expectations moving into this year and beyond. In a summary of some of the mix of qualitative and other key improvements that we've made and achievements across People Planet, and those areas that continue to be important for us as we face into the higher levels of uncertainty or agility, and resiliency required from our people for COVID-19. So let's pick up on slide 13 infant nutrition continues to perform really well, and that's supported by the cornerstone customer and shareholder that we have with our strategic partnership with a2. A consumer packaged infant formula sales are up 15% to close to 40, just over 49,000 tonne this year.

And look, I think a real achievement for us as our ability for the organisation to navigate through a large amount of the disruption that occurred in the second half of this year through COVID-19. Our supply chain teams and our people demonstrated some extreme resilience and agility kept supply chains open, kept our product procurement available and we're really pleased with how we were able to come through this period. It's also strong evidence of the partnership that we have with a2, that is a large part of underpinning our growth, but it's really important also that people understand what we enable for the a2 Milk Company. We're home to New Zealand's largest day one protein-free milk pool, which we provide for them. We operate a highly integrated infant nutrition manufacturing network. Now with facilities established both on the South Island and the North Island, we hold the seller licence, which ensures open market access into China for the brand and we continued to support that with the stability and confidence we have in our supply agreements with a2 the product development and innovation, we provide them the account management support that is sitting behind that.

The really strong endorsement for both Synlait in terms of the result we achieved and have navigating through COVID-19 and the strong strategic partnership we continue to have with a2. Moving on to slide 14, I thought it was worthwhile just highlighting how Synlait has helping support our customers navigate through a really dynamic environment in the space. At the moment, we're seeing real shifting curves in the space around market dynamics, not just with COVID-19 with premiumization, declining birth rates shifts and the channel dynamics with Seabeck and Diago. We've also seen recent studies that show greater trust and domestic players coming out of China for infant nutrition, but on the right-hand side of that slide, we're also seeing shifts in the regulatory environment around the geopolitical nature of how governments are responding in particular with the virus bilateral relationships between New Zealand and China.

What GB standards will be released around the standards required to meet China requirements for market access, seminar registration, and the process and the uncertainty that continues to play for our industry. As part of that, we acknowledged there are risks here, but we think that we're well-placed to help navigate through that with the effort that we put in to our regulatory teams. And, for both companies, the importance of renewing our registration and September 2022 is really important and we continue to work really closely with a2 on this project.

Now there's been a lot of interest in some of the Pocono, how it's being commissioned and what sorts of new business we are developing to go against that new investment. That's a significant investment for us and I just wanted to talk through on page 15, how we're looking at that for last year and for this year. So may Poconos still remains an establishment phase this year. We're really pleased to have genuinely created an integrated process and capability with our Synlait open canning site. So we now are able to take fresh milk from a milk pool and the Waikato process that at Pocono and bring it to our Richard Pearce Drive site, in Auckland and end to end create a genuine different option in terms of North Ireland, infant nutrition manufacturer. Obviously we're were waiting for the Supreme Court out outcome on Synlait, which would allow us to continue to proceed there.

We've got a strong milk Polus devastate and a great farmer base. We've commissioned this facility on time. And this year since processing first milk and September 2019, that facility has produced around 15,000 tonnes of ingredient and the vice powders. So we're really starting to see it come online as we've established that what the strong, highly engaged and capable team that we've got in place look into the future and what we call the transition phase and Angela talked a little bit about how we invest and start to build into our capacity that we've created. We will then turn our attention to focus on transitioning to a high margin product mix. We are finalising a long-term supply agreement with a new multinational customer for packaged products, which we expect will have a positive impact on earnings from FY23 and this will start to improve some of the Poconos utilisation and leverage the existing operational expertise we have there.

So that really is the situation around Pocono, moving from establishment to transition and making a significant contribution to the organisation and the Optune years. So very strong evidence on slide 16 of the great progress our manufacturing teams continue to make. They are showing strong improvement in conversion costs, drying milk faster, reducing downtimes materially, working with how we manage change over times and powders. And really when you look at these data metrics, they add up to the fearing necessary investment and new capacity, particularly around the third binning and canning line, which we're really proud of. On page 17, just moving to how we're looking about dairy works from Talbot forest this year. I suppose this, if Y20 has been a year where we've consolidated those assets and we've started to set ourselves up for success this year represents the full 12 months of owning Talbot Forest Cheese.

And four months of owning dairy works are focused on if Y21 is around realising the business and supply chain synergies that we see there, and some great opportunities to take costs out of the supply chain and improve our competitiveness by building an end to end Cheese Value Chain. And then we look at the market and category expansion opportunities to establish a sustainable learning stream. So our focus for this year is starting to look at removing some of the duplication that we have across those two assets. We've already moved and migrated some of the secondary processing that's cutting and grating capability. That's set at Talbot Forest Cheese that sits better with Dairyworks. So we see operational opportunities to improve there. We will be investing in small automation and lineup grade projects that improve line speeds and enhanced capability, and also there's opportunities this year to start to leverage the scale of being part of civilised network and the strong relationships we have with other suppliers.

So that's a large part of the focus going into this next 12 month phase and we're also really excited about some of the market and category expansion opportunities. We see great opportunities to grow into Australia and China with our strong relationship with Woolworths in Australia, we see opportunities to grow specialty cheese and a couple of pictures on page 17, show some of the fantastic innovation that's coming out of the team, encourage you to get out and try our finishing butters. My particular favourite is the Chipotle and Sea Salt and coming months you'll see a high protein on the Go yoghourt that we think is going to hit the spot with consumers who are busy and wanting to get to work and get a healthy breakfast down.

So the Underlying view on the potential that we see around Talbot Forest dairy and Dairyworks is unchanged. We're forecasting and remain on track to deliver sustainable learning stream of approximately 15 to $20 million at an EBITDA level emerging in the next two years, as we start to realise some of these synergies and move into the growth momentum that we're seeing. On page 18, some really good progress on safety and engagement, diversity and inclusion, and our Whakapuāwai programme, which is about planting trees. We've got 12,000 trees in the ground and targeting 80,000 this year. Some really important parts of our organisation and our focus on these areas just continues to drive the journey for us to build a healthier Synlait and strengthen our company as we go forward. Likewise, I'm really proud on page 19 of our B Corp certification this year.

We did this really because we really believe fundamentally that a lot of the work that we do in the environmental and sustainability space goes unnoticed. It's a lot of work that sits behind us. And B Corp gives us the opportunity to sign up and be accountable to the programme that we've put in place, but also to join a community of organisations that share our view to use business as a force for good and that the achievement of the citizen education as again, just the start of starting to build a network with other like-minded companies, which had some strong reach out from other New Zealand and global entities already, who are keen to support us on our journey to continue to contribute to people and planet alongside profit in our organisation. Moving now to risks. We often talk about the rest that we carry, and I think certainly has historically carried a large portion of strategic risk, which we are on to addressing the first one that's front of mind is naturally COVID-19 and how we respond to that.

I'm really pleased with what we've proven today and the resiliency and agility of our organisation. The next three lines, there are really about the concentration with the caring. I hope that many of you that have been following us have seen that we've moved from, some 12 to 18 months of months ago of being focused on a single category customer and site to really genuinely and authentically addressing those risks around sites, around categories for the acquisitions that we've made and around customers. So still a work in progress, but we're really starting to move forward on that. And whilst it's come at a cost with the investment profile that we've had, I'm really optimistic around the opportunities that we're creating to be a more diversified and resilient organisation facing them to some of the global uncertainty that is looming. We're watching very closely. The Chinese regulatory changes on and off farm environmental impacts were well-placed for, with our Lead with Pride programmes, we remain comfortable with our legal position on the Supreme Court.

And as Angela addressed, looking at our balance sheet in terms of making sure that we're running at appropriate levels of leverage going forward. A quick slide on page 22. Again, I'm really proud of the efforts that our team put into COVID-19. I think many of the New Zealand and New Zealand companies have had to face them to this. I do also believe that we're well-placed to tap a wider nutritional opportunity for New Zealand and high provenance and quality food that Synlait well-placed to take advantage of. I really do believe that this also validates our strategy to get on and diversify organisation and make sure that we are able to make sure we're not exposed to single buckets of business so that we can be more resilient. And when we're facing into high levels of volatility, and I'm really proud of the team and the effort that they've put in to make sure that we're well-placed for this.

So we're up for what's ahead. And I think well-placed, as we go into the future. Moving to slide 24 as part of our outlook fiction this year, we've agreed as a team that we must focus on making sure that we set ourselves up for the next phase of earnings growth, given the investment phase, that we've just come through a really simple three focuses for us this year and bedding new and existing customer partnerships, making sure we focus on optimising assets and creating value off the recent investments that we've made and simplifying and standardising our structures and systems. We're a maturing organisation. We've grown really rapidly over the last few years, and it's important that we continue to invest in the core parts that set up business up for success. So those are the themes for us for this financial year. On page 25, I know many of you have seen this slide before.

It's a really important one for us and for everybody to understand a material, jump up over the last two years from roughly half a billion dollars of net assets to just over a billion today, that's creating somewhat of a drag on our balance sheet, as well as our impact number, but it's also creating fantastic opportunities for us. We're now really well-placed with our liquids plan, moving to a commissioning phase, Poconos, an outstanding facility for us, and the ability to diversify our customer base as well as leverage new markets and categories without dairy works acquisition puts us in a good position to face into the uncertainty. So moving to our guidance side, page 26, I must say there's more words on it on this page than usual. And I think that's a function of the uncertainty that's out there. And so look, I think that that's the first point there is that we do continue to see significant global uncertainty. It's very difficult for any company to predict what our results are going to be 12 months out at the moment, because there is a lot of volatility out there.

But we have shown a good amount of ability to maintain operational continuity over recent months, and in terms of the demand for our products here's what we're expecting. Around consumer packaged infant formula volumes, we're expecting those to be similar year-on-year. We are forecasting lower demand in the first half as we work through some higher-than-normal stock levels in the supply chain with our customers, but we do expect a return to growth in the second half of FY21 once we've worked through those stocks. We do expect strong underlying EBITDA and cash flows to continue, in particular contribution from Dairyworks and Talbot Forest Cheese as we realised the synergies that are there and moved forward. And we don't expect disruption to manufacturing or demand for our ingredient and lactoferrin businesses. Of course, these demand outlooks are subject to the unpredictable effects of COVID-19.

We're seeing lots of shifts in consumer behaviour. General dynamics and moving around and supply chain disruptions are not out of context and could still occur, so watching those areas with interest as we move forward. Overall, this is offset by the carrying cost of investment in Pocono and in our advanced liquid dairy plant. Earnings from these investments will be expect to be delivered from FY22 and beyond, as we start to get out programmes and move those facilities from establishment phases into transition phases. And as disclosed today, we're finalising a new long-term supply agreement with the multinational customer for package products, and we expect that to have a positive impact on earnings from FY23. Against us, we're targeting a similar or slight improvement on our FY20 impact result in terms of our overall guidance this year, and obviously we'll provide an update to the market at half-year when we expect to be a little further into this year, and perhaps can manage some of that uncertainty that prevails.

So really what are the takeaways for today? I think we're in good shape. We've come through COVID-19 well. I'm really proud of the response in the organisations, and we're in a good category and a good industry to continue to tech high quality nutrition as a net exporter of food to the world that will continue to demand that. Our financial result is strong. I'm very pleased with the revenue growth that we've got, and the EBITDA result continues to point to the strong underlying growth of our core business. Our net profit result is carrying, showing the result of carrying the cost to create those opportunities for future investment, which are coming through. We are coming to the end of that investment phase, and we're really well-placed to drive earnings growth in future years. So that concludes the main body of my presentation. There's a series of appendix slides that we can continue to talk to as part of our catch-ups with each of you, as we go forward. I'd like to now open the line for questions and we use this time effectively, so let's go to the first set of questions, please.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up your handset to ask your questions. We ask that all participants listen, limit their questions to two per turn. And if you have any further questions, please rejoin the queue. Your first question comes from Chelsea Leadbetter from Forsyth Barr. Please go ahead.

Chelsea Leadbetter: Thanks and hi Leon and team. I guess if I start... Hi, if I start with my first question around just thinking about Pocono, and can you give us a little bit more colour in terms of the utilisation path? I guess thinking about the next couple of years, what type of products we should be thinking about, and then you obviously call out the new customer that you're expecting to finalise in due course. But I just trying to understand how material that is in terms of taking up capacity and, I guess, how you shift and move in accordance with keeping available capacity with that coming on stream in due course.

Leon Clement: Yep. Thanks Chelsea, great question. And I think, as we signalled, it's really an establishment phase still this year and we start to move to starting to move towards a higher margin product mix for us, remembering that margin comes through both overhead recoveries in terms of the complexity of products, as well as the margin we're able to achieve from our customers. So a lot of the establishment phase for this year, in particular for Pocono, before new customer opportunities come on, is looking at how we optimise our asset base in our network. You'll see buried in our report somewhere that we have recruited 80 million litres of additional milk in the South Island this year, and that allows us to push more IFB production up to the North Island, and therefore get better recoveries on the cost structure that we've just recently put in place on Pocono. So that's an example of the kind of things that we can do against our existing volume and product mix portfolio that allow us to start to transition us.

FY20 was very much around us getting Pocono running, making sure that we had the team in place, the quality procedures in place. We were getting our registrations. We didn't make our first IFB until the new calendar year this year, so we've been migrating up that path. We now have a really strong established facility and we can start to optimise against that. So having more milk recruited down on the South Island allows us to process commodity products down with the network that we have there and optimise effectively, push more infant-based powder up to the North Island and use that network more effectively. That brings a better return for the base products that we have there. And then in the outturn years, starting to look at additional volumes that may come from the new multinational customers about...

Chelsea Leadbetter: Okay. And in terms of my second question, maybe prioritising here, but in terms of, I guess, outlook, are you prepared to give us any sort of context on how we should think about your CapEx for the year ahead, and maybe even the debt levels? I mean, you made the comment lay on about thinking about appropriate levels of leverage. Now what is that, in your view, and kind of how should we be thinking about that deering path?

Angela Dixon: Thank you Chelsea, I'll take that one. It's Angela here. In terms of our CapEx for the year ahead, we're continuing to just focus on completing out this build phase. So drive store four will be completed this year, and will be up and running with significant benefits coming through by January and February under our current plan. We're also going to complete our ERP project, which is effectively putting SAP into our organisation so that we can get a lot more efficient in productivity benefits flowing through in the years to come.

There's some small expenditure still required on in terms of cash flow payments that were deferred from FY20 on Pocono and the milk plants, but they were de minimis. They're a very small amount, and then we're moving into a phase of just normal maintenance CapEx. And we're really asking the business to be really wise about how they're spending their money at the moment. We've got a lot of new assets. We have a few older drives that do need to have... make sure that they can run optimally over the particularly the milk peak, but our CapEx expenditure into the business is now closing out. And a lot of those costs that I talked to, in terms of the growth sites, have already been incurred. And the last one that happened was we packed and we made the final payments for the farms, which came through in August. So a lot of the costs that have been incurred, the lot of the big spends, the CapEx has been done in FY21 because it happens in the first couple months of the year. And then we're going right back to that maintenance level.

Chelsea Leadbetter: Thank you.

Angela Dixon: And then I thought I could addressing your second question relating to the leverage. I mean, we're just... I'm just taking... I'm new and I've been here three months, and I'm really just trying to get my head across our deep strategies and our balance sheet, and understand what would it be appropriate and understanding how we naturally deleverage now that our investment costs are falling away and our operational cashflow remains strong. And I just want to get that balance right, and I'm just taking my time to look that through.

Operator: Thank you. Your next question comes from Adrian Allbon from Jarden. Please go ahead.

Adrian Allbon: Good morning, team. It's just the first question, just around, I guess it's sort of related to Chelsea's question on the CapEx. To get the synergies and the cheese strain between Dairyworks and Talbot, is there any further sort of investment required over the next three years of size to sort of be able to execute that strain? And, related to that, [crosstalk 00:37:25]... Sorry, and then sort of related to that, should we think about, if you are successful on that, in terms of return on the milk, would it be similar to sort of RFB power in terms of a overall return?

Leon Clement: Okay. The first question is easier, I'll come back to the second one. No material additional investment, and to Talbot Forest, Dairyworks. In a large part we've done a large part of the capital investment that we needed to in Talbot Forest a little bit earlier than we originally forecast. You want to remember that we bought Talbot

Forest before we had Dairyworks, and we had a plan to potentially scale up production there earlier. Rather than running that production, we've invested in making sure that it's ready to support and feed Dairyworks. A large part of that is done. We also had that unfortunate product recall that had an impact this year. There are some small tweaks to investment in line automation that we see good opportunity for. We've already moved secondary processing for specialty cheese and some great lines from Talbot Forest to Dairyworks that has been completed this year, again at a cost of some of the optimization of production and overhead recoveries. But that is now largely in place, and we see ourselves well set up for that.

As far as comparing returns to a melt solids basis for IFB, I must admit I haven't done a comparison on that basis. But we are comfortable that the returns that we expect to see in the next two years and the potential we see for this organisation and the outturn is consistent with the hurdle rates that we have around this month.

Adrian Allbon: Okay. And maybe, second question, obviously, you've been careful sort of not to sort of tiptoe into any sort of response on Mataura Valley and what they too some near. But just in terms of, I mean, and obviously they're a multinational customer you've got some sort of medium-term sort of diversification to that in any respect. But is there... Can you... Is there any ability to differ... Well, in the current agreement, is there any ability to differentiate cross the China label from the English label, as it currently sits in that relationship?

Leon Clement: As you know, Adrian, we don't comment on those sensitive commercial terms, but sort of behind that relationship. So we'll probably stay behind that, and as we've commented before, I think A2 have signalled really clearly in the past their intention to participate in manufacturing. We understand their decision and diversification of their supplier base is not new to A2, and we'll continue to move forward without diversification strategy as well. I will stress this is an and, not an or approach here. We continue to have a strong long-term and strategic partnership with A2. It's a core focus and priority for us, and we continue to see the opportunity for both companies to continue to create value together. And we'll continue to do so.

Operator: Thank you. Your next question comes from Stephen Ridgewell from Craigs. Please go ahead.

Stephen Ridgewell: Yeah, good morning. Just wondering should investors still be expecting similar to kind of lift ROCI to 20% plus in the medium term? Just didn't see that being called out.

Leon Clement: We're not being explicit on our ROCI returns in terms of the outturn, but look, we do, as a management team and a board, eyeball those sorts of returns as hurdle rates for new investment. So I think it's fair to say when all of our investments start coming together, and should they do that, then those sorts of return on capital employed rates are possible. I think we'll certainly see a lift, but we're also got a much larger asset base to do that. We've got execution risk in terms of pulling together a much more diverse organisation. And frankly, whilst I think we continue to, and should have, high hurdle rates for us to work through investment decisions, I think, certainly as management and as a board, we would be comfortable with a slight softening of delivery against that in exchange for a more diversified and sustainable company.

Stephen Ridgewell: That's helpful, thanks. And just following on from that, I mean, strategically, what's the company's chief way to diversify its customer base going forward? Is it organic customer lens? And to note your comments on the new customer from 423 potentially, or is it acquisitions or do you see a combination of both? And it's some kind of balance?

Leon Clement: Look, I think the best way to answer that is we have a multi-pronged approach to diversification, because we've had concentration risk at a range of different levels. So we've had it around production sites, around categories, around customers and markets. So we'll continue to seek opportunities to do that in whichever way we feel is most appropriate. We've built category and geographic diversification through the acquisition of theory works. And I think that that's well set up now to progress. Customer diversification as perhaps something that we will look to do. What's unexisting categories where we see complimentary capability and capacity that's available. So, yeah. Look, we'll continue to see a mix of strategies. I do think that we are well set up to continue to diversify without significant investment we're coming to the end of an investment cycle. The opportunities are now there. We've largely addressed the site diversification risk that we needed to and category customer and market will start to evolve once we leverage the investments and get returns on the decisions that we've made.

Operator: Thank you. Your next question comes from Marcus Kelly from UBS. Please. Go ahead.

Marcus: All right. Good morning. I just wanted to start with the guidance Leon. I suppose when I read through it, it sounds like you're referring to quite a big step up in everyday dairy this year coming, and flat and some formula volumes. So, you know, what's the negative Delta That keeps the profit flat in the year coming?

Leon Clement: Look, I think what we're signalling Marcus is that we see, tell it for us dairy, where it's contributing sukkah 15 to $20,000 of EBITDA. By the time you pay the borrowing costs and depreciation on the NSC that's contribution to impact has dealt down somewhat. I'll let you do the maths on that. The offset is against flat infant formula volumes, and a fair amount of unpredictability out there. So that's broadly how we see things evolving.

Marcus: Is part of the issue, the amount of milk that you're taking in.

So this year was up 20% production was only up eight. Yeah. You got another big increase next year, it sounds like you're going to pump that into commodity grade ingredients, so is the milk going to be part of the drag on profits this year coming?

Leon Clement: Not necessarily. I think the milk doesn't tend to contribute to losses it offers opportunity to optimise assets. So we've recruited more milk to step up into our cheese value chain. And similarly, as indicated with Chelsea's question to what demands are done, see more assets and push a bit more on if they up to poking on his side. Now it's not a contributed to that drag.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Tim Hunter from NBR. Please go ahead.

Tim Hunter: Good morning. And thanks for the presentation. Just following up on the deposition. I noticed that you've refinanced some debt and you've got quite a bit maturing over the next sort of 12 months or so. Can you give us some guidance on whether you are aiming to just refinance that debt or raise capital?

Angela Dixon: Hi, Angela here, good question. We are looking at a number of different options and refinancing the debt is certainly one of them. We do have one of our revolver a rolling off 1st of October, but we will continue to look at all the options, it makes sense to look at all the options. And, I think we'll make some decisions in due course.

Tim Hunter: Alright. A second question, just to run Pocono, you talked a little bit about the capacity, but can you tell us what the capacity usage of the Pocono plant was in FY20 and what it will be when the new customer comes online?

Leon Clement: Thanks Tim, We're obviously not disclosing too much around the customer details at this stage until we finalise that agreement. But look, roughly you can think about Keno as we made about 15,000 tonnes of mix of ingredient and infant nutrition there this year. If it was running fully infant nutrition, it would be about a 35,000 tonne drier. When you make infant nutrition, that's a little bit slower than commodity. So we could probably lift output there if we had a higher mix of just processing milk, but that should give you some indication of the 15,000 metric tonne against the capacity in that dry this year.

Operator: Thank you. Your next question comes from Kurt Gelsomino from Morgans. Please go ahead.

Kurt Gelsomino: Good morning Leon an Angela. Can you just talk through the second half performance of the liquid milk facility? It looks like a modest swung from a modest first off gross profits or a second half loss. Can you just talk about some of the dynamics going on there and maybe the outlook for the new customer opportunities for that facility also, please?

Leon Clement: Yeah, sure. Look, we're still commissioning the UHC line there and, and getting validation of shelf life studies. So as indicated in terms of the contribution of that asset in FY 22 and beyond where we really start to ramp up production and output of the UHC long lifeline. The fresh milk line continues to make a good, solid contribution to the cost space that sits around that. Obviously when it's running at those sensitive levels, without the support of the overhead recoveries from the UHT line, that's a little more sensitive. So we'll move from rough contribution to breakeven, and there are some times some movements around how we manage and account for full cream, and that can be seasonal. So we'll do a bit more digging on that for you and perhaps look back in the one-on-ones.

Kurt Gelsomino: Awesome. Thanks. So then maybe just a quick final one. Have you quantified at all you external infant formula based powder sales in FY 20 at all?

Angela Dixon: What do you mean? Could have we quantified, what does quantify mean?

Kurt Gelsomino: How much in your powders and creames sales volumes this year, how much relates to third party?

Leon Clement: No, we typically don't quantify the mix within that element for commercial reasons.

Kurt Gelsomino: Yeah I think in the past you've only shared that information, but that's okay.

Leon Clement: We'll go back and check. I think if you're asking for a split and where we put powders and creams of how much of that as ISB, we don't disclose that for commercial reasons.

Kurt Gelsomino: No worries. Thanks for your time.

Operator: Thank You. Your next question comes from Nick Mar from Macquarie. Please go ahead

Nick: Hi Guys. Just on the semi registrations, you didn't really kind of mention too much about the other Chinese brands. Are you guys still progressing with those? Are they kind of quartered off given the complexity of getting people down as part of the world?

Leon Clement: No, It they're still in the mix, awaiting a formal side-out at, by semis. So there's not much more we can do. They've had approval from a dis space review by semi and then subject to a site audit. So yeah, there's just not a lot to do, but sitting and waiting as we start to see how that part of the semi licencing process may evolve.

Nick: Right. And then just In terms of the kind of motion national customer and how, how we think about that, is it kind of the FY 23 number in terms of when the volumes will start or will it, would it start likely earlier on a kind of less than kind of break even or break even basis so not financially contributing? And is it kind of sites for shutting that down that pathway you would have kind of gone for maybe volume over margin to get utilisation up?

Leon Clement: I think it's too early to speculate until we finalise the agreement. We're just saying it'll make a positive contribution to earnings on FY 23 and beyond.

Nick: Okay. Thanks a lot.

Operator: Thank you. Your next question is a follow-up from Marcus Kelly from UBS. Please go ahead.

Marcus: Leon, I know the comments you made around a2, but I just wonder if you would offer up what proportion of the business is not exposed to the exclusive manufacturing arrangement. How much revenue is free to move or not bound to that agreement.

Leon Clement: So can you just clarify the question again, Marcus?

Marcus: So my understanding is that under the a2 arrangement is an exclusive arrangement over, I think, stage one to three into Australia and into China, but you do other products for a2, I just wanted to know what proportion of the group sales is not bound to that exclusive component of the a2 agreement.

Leon Clement: Your understanding of the exclusivity as you described it as correct.

Marcus: Okay. But is there a material amount of sales that, that you do, which are not stage one to three at the moment and they're New Zealand and Australia and into China. So what proportion wouldn't be that?

Leon Clement: I think it's fair to say that there's not material volumes there, we focus on the underlying exclusive clauses within our contracts and, you know, we don't objectively or explicitly split that out for obvious reasons.

Operator: Thank you. Your next question is a follow-up from Stephen Ridgewell from Craig's. Please go ahead.

Stephen Ridgewell: Thanks. Just quick ones. First of all, Can you give us a bit more colour as to what the shamed intensive, like the fear and pricing and the golden fleet provider?

Leon Clement: Sure. I'm really pleased with that business unit has made a strong contribution this year. We've got now about two thirds of our capacity under written with longer term agreements. He has disclosed in the past that we've got a longer term agreement for about half of it, but that's now moved to a little bit higher as we started to lock on some longer term agreements and higher pricing. So that's giving us a little bit more stability and confidence around the capacity there against quite a bit of volatility. There's been obviously strong demand, particularly out of China for lactoferrin and high quality lactoferrin, which we produce. So we're still really confident around that. And I think that we can expect that prices will remain relatively robust over the next 12 to 18 months, but we have seen some recent announcements from the industry of additional capacity coming online. So it'll be interesting to see what impact that has in the upturn.

Stephen Ridgewell: Great. And can you discuss kind of the timing of the Pokono court case?

Leon Clement: We should expect the decision before Christmas.

Stephen Ridgewell: Great. Thanks very much. That's all for me.

Operator: Thank you. There are no further questions at this time. I will now hand back to Mr. Clement For closing remarks.

Leon Clement: Right well, thanks Everybody for your questions. I know we'll put out with many of you in one-on-ones and other group sessions, very heavy for subsequent calls via Hannah. If you did want to clarify anything, there's a lot on our result this year, but thank you very much for your time and look forward to catching up in the next few days. Thank you.

[END OF TRANSCRIPT]