**TRANSCRIPTION**

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**[START OF TRANSCRIPT]**

**Operator:** Thank you for standing by and welcome to the Synlait 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 Hannah Lynch. Please go ahead.

**Hannah Lynch:** Good morning, everyone. And welcome to Synlait's guidance update conference call. I'm Hannah, as the operator said. I would like to introduce you today to our new CEO and CFO, John Penno, and Rob Stowell. I just ask that you keep your questions to two per person. John and Rob will provide a couple of opening remarks and then we'll hand over to questions. John.

**John Penno:** All right. Good morning everybody. Thanks for making the time available to come online and listen in.  
  
And what I thought I'd do is firstly, just introduce myself and my role here, given this period of uncertainty that we're in, then I'd like to introduce Rob Stowell, who's sitting here with me, then we'll go to the business of the day, the substance of the announcement, and then we'll make sure that we've got plenty of time to answer your questions.  
  
So before I started, hello to all the people who we've talked to and worked with in the past. As probably most of you know, I was here as the inaugural CEO of the company for the first 10 years of operations and have come back, and I've been on the board since I stepped down as CEO in 2018. And now working with the board in the role of chief executive officer, again. Look, I do want to just take the moment to clarify the way the board and I are seeing my appointment.  
  
Number one, this is, while it's an interim role, we're not waiting for anything. This is not a holding pattern. There's a lot of work to do, and we're getting straight on with it. The first step is to fully understand our position and today's announcement is really about that. Over the last three weeks I've worked pretty hard with the finance team that's in place, as you know, and we'll talk to in a moment, made a change in chief financial officer, and that's all been about getting towards making sure that we could provide good clarity of where we see this year closing out, rather than providing a number and then pointing to a bunch of risks that might be going on. So, that's the first thing.  
  
Second is we need to deeply understand what's happened. Clearly, this is a very disappointing result after nine straight years of profitability.  
  
Some of it is about factors out our control, but a bunch of it is about factors in our control as well. And that's really where we're putting our emphasis, making sure that we deeply understand the things that we, as a company, have done and the choices that we've made so that we can build a robust plan going forward again and get back to solid profitability. And we'll talk to that later in the call.  
  
And that leads to the third part. After understanding where we are, understanding the reasons we are where we are, that's the foundation for a good solid plan that we intend to be able to talk to you when we come back in September, closing out the year and talking about the year heading forward. So we'll be able to talk at a high level about FY22 and our expectations for that, because we can see already that as we at some of the big moving parts, sort of normalised at the end of this year, we, we remain confident of a quick return to profitability. And we'll talk about the principles in behind that, but we'll talk about the detail when we see you in September.  
  
So I know you have lots of questions. Don't be too surprised if we bat those away when we're talking detail on FY22.  
  
Let me introduce Rob. So Rob, you'll hear from in a few minutes. I'll get Rob to get a quick outline of the changes that have led to us making a different forecast for year end this year. Rob has been with this business for a very long time. In fact, I think he was about our third or fourth employee in to Synlait Milk, when we were first starting to plan the business many, many years ago. He's been with us for 14 years. He grew, he came to us after several senior accounting and finance roles offshore, and various entrepreneurial companies. He then worked with us as we grew up the finance team. He sat as 2IC under Nigel Greenwood for a number of years, until about 2014, I think it was.  
  
At that point, we basically faced losing Rob to a CFO role outside of the business because Nigel was still firmly in the role. So we took roll and put them into various operational roles in the intervening years. He built our planning system, which is still at work today. Then we expanded his role probably four years ago into general manager of operations, where he, as well as continuing to oversee those planning functions, he looked after all the supply chain logistics warehousing, which is a really important part of this business and has done a great job of managing that for us.  
  
He's just come off leading the build of the rail siding and the new warehousing. And that's a project which has gone really well. It's come in on time, on budget and is set to deliver the expected business performance improvements from clarifying our logistics programme and getting a whole lot of trucks off the road and using rail heading forward for our Dunsandel site. So he's really well qualif... He understands the business very well from his background, from working at senior levels with his colleagues, he's always been an advisor into the finance function. He has been involved in an advisory context in the last three weeks, as I've tried to work with the team and build a clear understanding of our current position. And so he's in a really good position to talk to the points today. So I'm going to hand him the mic and a moment.  
  
Just before I do, though, the one overview comment that I would make is that, for those of you who are going to try and bridge back, use our comments and bridge back to the last forecast, it's just not quite as clean as that. This is a view that we're taking over the whole year, where we've sort of gone back to looking at everything and making sure we fully understand what's gone on and we're presenting the most accurate picture we can. So while the number has deteriorated, we don't see it as a recent deterioration in business performance, it's just a clearer view.  
  
And if you compare the two guidance statements, I'd like you to note that we put a number out with a bunch of risks facing it. This one is we're really looking at those risks, taking a what we believe to be a fair view of the risk of those things materialising and putting it into our expected financial results. So you won't see that we're facing a bunch of risks here. We're saying this is where we think it's going to land, and we're going to manage it. We're going to manage it as, as well as we can to do better than that, and then make sure we get focused on delivering a much improved result next year.  
  
And so with that, I'll hand to Rob, and then I'll summarise again before we open up for questions.

**Rob Stowell:** Thanks, John. I just want to begin by saying how excited I am to be supporting John in the CFO role. It could be better circumstances, but having worked with John for 14 years with similar styles and having very much a strong passion for the business, I'm looking forward to, just to stepping in. So to get into the detail of the release, the first thing we're going to point to, as obviously the guidance says between $20 and $30 million in that loss for the group. And there's three key things that are driving that result.  
  
First one's our shipping delays, and the shipping delays have been there for some time, but as we move in towards July we've established that they're actually going to get a little bit worse, and that's not helped by the fact that we had a little bit of bulge of quality hold items in the last quarter as well. So at the end of July, really, we're going to probably have anywhere up to 10,000 tonnes of ingredient product, which is not going to be sitting in inventory and which we would normally have sold by our year end. And so that's a drag on our P&L in FY21.  
  
The second aspect, and we noted this again in the March release, as our ingredients business is not performing quite as well as we've seen it perform in the past, and this is down to a few things. Obviously we had the flip of milk from A2 product and to the ingredients product, but through that, our sales phasing, and the volume shift with the increase in volatility in commodity prices has, we think, erode a little bit of value. The butter AMF differential has absolutely been there and will continue to be there through to year end as well. So, that's another drag on our P&L.  
  
And the third thing is as we've moved towards our year end, and we still have the uncertainty around the A2 demand, our base powder assumptions, what we produce and what we hold in stock at the end of the year is a lot lower than what we've had in the past. That, coupled with some extra stock provisioning has meant another drag.  
  
And so the other key aspects, you might ask me, what's the weighting of those three areas. Look, to be honest, they're reasonably evenly spread across those three areas, probably the best way to explain that.

**John Penno:** All right, just by closing out the year, we do make a statement that we've got good, strong support from the banking syndicate. We've got waivers for this year, which we think is the appropriate thing to have in place, right at the moment, working with them constructively to get finance in place for next year. We've got some short term debt rolling off September, October. That was always part of the plan. We feel confident that we'll get that in place. And again, we'll be able to talk about that year end.  
  
We are not planning on a capital raise. And I know that that's been a question for a number of you. We see a number of the analysts sort of writing to our adequacy. Look, we would encourage you to look backwards through the history of the business. There's a business that when it's running well has good operational cash flows. And we expect that that'll return going into next year, as we balance our base powder production with our sales of canned and formula, even if we sell the same volumes that we've achieved in FY21, we can see a strong return to profit and a strong return to positive cash flows. And our CapEx programme is running out. So our CapEx programme will be much lower in the coming years. We have largely new plant and equipment that is fit for purpose. And so we're entering into a time where it's about setting up the plants, making sure that they are operating close to capacity and a period where we really focus on walking back up that value path again, Project S coming on for Pokeno. Good progress on selling high value creams into China. Again, a project that we would like to be able to talk to you about some more come September. And a period when we will be balancing up again our CapEx spend. So we feel reasonably confident that we are going to be able to just work our way through this with prudence and careful management. So I'd like to leave it there and turn the call over to any questions that you might have.

**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 speaker phone, please pick up the handset to ask your question. Your first question comes from Adrian Allbon from Jarden. Please go ahead.

**Adrian Allbon:** Good morning team. I was wondering if I can ask two questions, maybe the first one for Rob. Just in terms of... I know you sort of said it's difficult to bridge accurately those three factors that are sort of driving the business into a loss, but are you able to give us a sense of... like, is the third one, which is the sort of the inventory reset stuff, is that a cashflow impact? Or can you get us a sort of a sense of the cash impact of those three things and maybe where you sort of expect your net debt to land for the year end based on your planning?

**John Penno:** Look, firstly I'll just answer the cash piece. It's not so much cash, Adrian, it's more a position that we'll take... obviously the stock provisioning is non-cash. The infant base powder production piece is... it's a bit of both. Obviously if we are making less base powder and we're making more ingredient products, then we should be able to cash those ingredients products up, but it needs to be looked at with the shipping delays. So if we still can't ship that product, then obviously that's sitting on our balance sheet as well, and we'll have to cash up those products in the start of the next financial year.

**Rob Stowell:** If you'll let me jump in there, Adrian, if you look at our balance sheet over the last couple of years, we have been accumulating increasing amounts of inventory, and we'll be working hard to bring that back into balance.  
  
That's a big area that we can release cash by making sure our planning systems are working really well. And it'll happen naturally, as we return to normality after forecasting considerably higher IFC volumes hitting into this period, having a lot of inventory and then just having to work our way through that. Taking a more conservative position about those IFC volumes end up will release cash from inventory.  
  
And the shipping delay thing, it's a balance date issue. So the cash will quickly move through those volumes early in the new financial year, but we're going to be pushing them over balance date, and obviously that pulls the earnings out this year's P&L. It also means that we won't have the cash on the balance sheet. It will have stock on the balance sheet you're in, but it'll rectify itself pretty quickly as the year closes out. And they're quite big numbers at high commodity prices are higher numbers per tonne, than you would see perhaps a year ago when commodity prices were considerably lower.

**Adrian Allbon:** I appreciate that. I've sort of had, after March, I sort of had the net debt around 450. Should we be thinking of the net debt being more like 500, just to give us a sense of the change here?

**Rob Stowell:** Yeah, we should think of it definitely having a five in front of it, Adrian. Yep.

**Adrian Allbon:** Okay. So that-

**John Penno:** We'll manage the business from here forward with a pretty clear focus on balance sheet and releasing cash where we can, but if this all pans out, Rob's right, it's about we're it'll end.

**Adrian Allbon:** Okay, so in resetting our numbers, for this year end we should have the net debt at least starting with a five. That's what you're sort of saying.

**Rob Stowell:** Correct, and there's opportunity for us to work our balance sheet a little bit harder going forward as well, Adrian.

**Adrian Allbon:** Okay. And then just the second question, obviously you've been in a reasonably intense review over the last couple of weeks and the profits, I know you're of saying, look backwards and then look forward again. But the profit's come from seventy-five million positive down to sort of minus 20 to 30 and I appreciate a lot of the plant is new, but there's no impairment testing. Have you looked and discussed that? Or we're to assume that your view is also indicating when you discuss with your funding providers, a pretty confident return to long run earnings power off that asset base?

**John Penno:** Yeah, look, we have turned our mind to whether there's anything that we should be in impairing in the viewer's note at this point. Again, we'll test it at year end, but we have solid plans in place to return the existing plant to earnings and making the adjustments we need to, to get much better utilisation out of the new pieces of plant, which again, we'll see earnings come up on those.

**John Penno:** So initial view is that we don't see any need to impair good quality assets with a plan to se them paying their way in the near future.

**Adrian Allbon:** Okay, understood.

**John Penno:** And I would like to remind people to look backwards and we've had a good solid track record a bit in the past. I think it's just a fact that we haven't delivered well on that in the last year or two, but the way we've traditionally approached these things, you've always seen us with good plant utilisation and we'll pretty quickly get back to that.

**Operator:** Thank you. Your next question comes from Chelsea Leadbetter from Forsyth Barr. Please go ahead.

**Chelsea Leadbetter:** Thanks. Morning guys. I guess first question from me in terms of, John, your view around some of the internal initiatives that have been talked about to help drive the business forward. I mean, I'm just interested in what's actually changed after your review. Have you accelerated anything, changed tack in any way, or I guess it's still relatively early days, but just interested in what change of direction, if any, or acceleration of direction you've put in place at this point.

**John Penno:** Yeah, that's a good question. And so I think the big change has been a much greater focus on the near term, right? So we traditionally had been a business... I think the strategy of the company remains right. You would expect that, right? I've been sitting around the board table. It's an evolution of the strategy that was in place when I was CEO. So I don't think we've got things wrong strategically, but I think that our focused on short-term execution hasn't been strong enough. And so I'm moving management's attention, perhaps away from some of the big long-term things that are not over the horizon, but two, three years away and getting us really focused again on making sure we're executing in the short term so that we earn our right to, and our way to those other options that come. So, you will have heard about projects like Coringa, which is an execution strategy that Leon and the team put together. But we're sort of steering that right back into the short term.

**Chelsea Leadbetter:** Okay. So I guess the way of characterising some of that is almost a back to basics. Getting your operational side of things as strong as it can be before we start to think about anything on the horizon.

**John Penno:** Exactly right.

**Chelsea Leadbetter:** Yeah. I guess I'm just interested-

**John Penno:** So number one, and I do go back to the statement I made at the start, which is what's the job at hand here versus clearly understand where we are. And that's what we're talking about today. Clearly understand why we are where we are and then build a plan off that to turn it around as quickly as we can. They're the three steps and the change in emphasis that's happening internally are aligned with those things. Taking a very good look, not so much at the things that have happened to us, but how we've responded to it and the things that we've been doing internally that had meant that we haven't quite executed on our strategy as quickly and cleanly as we might've. Plants aren't full and the way to make these big plants work well is to make sure that they're operating at or near capacity and then working your way up the value chain over time.

**Chelsea Leadbetter:** Okay. No, that's helpful. And then just second question for now. You talked a little bit about inventory levels and obviously trying to focus on cash. Is there a view internally yet on what the appropriate levels of inventory or debt level is for this business at this stage?

**John Penno:** We'll give you a better view over our view over FY22, as we discussed that plan, but clearly, we haven't earned as much. We're a long way from our earnings target in the last 12 months, that puts pressure on the balance sheet, but we can see things that we can do on the balance sheet to relieve cash, to help us through this little period. And you will see us managing inventory, not just to maximise profitability in the next little while, but to manage the volume of ingredients we're buying in, the amount that we hold on hand at any given time. And it does run back as you suggested to getting the basics right. If the manufacturing process is running really well and end products are coming out and we don't have quality issues to sort our way through, it's much easier to keep stock turn going quickly, and to not need to accumulate the volumes of the inventory that we had. You have seen accumulating on our balance sheet over the last year or two.

**Chelsea Leadbetter:** So should we be able to see some of this coming into fruition in 1H22, FY22? Is that the right way to think about it?

**John Penno:** Yeah, look, it's rough here. Absolutely. I mean, I'll give you an example. We obviously, at the start of the year, this financial year, we were running at much higher demand volumes for A2. And we had a raw material balance year, which was servicing that production and that demand. When the demand reduced significantly at Christmas time, we were left with a whole lot of whey protein powder, for example, and that's quite valuable. And so we need to work our way through those balances and we need to get down to a really efficient inventory level on that side. And it's the same with the base powder. We need to be very careful that we don't make too much base powder because then we could run into expiry issues and all that sort of stuff can be run more efficiently through into FY22. It all comes under this category of getting the basics right. Back to basics, run the business really well. You'll see it coming through in profit, balance sheet, and all the places you would expect to.

**Chelsea Leadbetter:** All right, thanks for the cover.

**Operator:** Thank you. Your next question comes from Marcus Curley from UBS. Please go ahead.

**Marcus Curley:** Good morning, guys. Just two, as required. John, could you talk a little bit to whether you think any of these issues are significant for next year? I suppose in particular you did mention a bit of pressure on ingredients margins, where these products are being sold into China and potentially where commodity prices are, but just keen on understanding of these three, Significant flow over the next year.

**John Penno:** Yep. Nice, nice to hear from you Marcus. Look, most of these issues we see as contained in FY 21. The big external factor in terms of the downswing in our volumes of IFC, which actually happened toward the end of the first half. They have had a knock on effect, but we see it contained into this year. We had a lot of milk that got diverted into whole milk powder, skim milk powder. We were already looking at quite significant increases in that because of extra milk that had come into the business for this year. So our ingredient business grew and in a year, I'm not going to it was volatile. It's just that prices came off a bit at the start and then have gone up very strongly in the second half.  
  
And if you don't get your phasing quite right, that's where you really fall out. And so it's not a question of us not achieving the margins on a day-to-day basis. I think the team has done a reasonably good job of it and we've got a great group of customers. They're usually premium mean products which can attract the margin on the day. It's just about getting yourselves phasing right. And as we look back, we haven't always done that. We haven't always sold the product. We haven't always sold to optimum product maximum. We haven't always got our phasing right. When you run up your model, you don't have to be very far out for it to make a big dent and it has. But the good news is these are things that we can turn around really quickly.

**Marcus Curley:** And in then secondly John, you had no mention of infant formula in the list of issues. Obviously we'd hate to announce a big stock write down programme and a desire to freshen the product being delivered to customers. Has that caused you any issues with your own sort of whey or other ingredients in terms of care and costs or your base powder in terms of care and costs.

**John Penno:** It's ultimately it's determined by their ordering and off-take of these IFC products. And actually the estimate that was made right back in December about the year on year swing and volume was quite close. That's why we're not talking about it Marcus, because this is not a further degradation of volume. This is just financiallizing the consequences of what happened. But also I think it's just the reality that when the tide goes out, the rock start showing through and we've got a clearer idea of some of the other things that been happening in the business. During this phase, when it grew very quickly, where we had very good earnings and very good free cash flow, but too much attention went on to one part of the business and not enough on other parts. What we're looking at as a year, where actually, as well as that movement, we've left a lot on the table now.  
  
And that's why I returned to this three step plan here. That's rather my assignment is: 1. Understand where we're at, 2. Understand why we're there. And 3. Get a plan in place to turn it around. And that plan is not waiting around until IFC volumes rebuild. That is executing really well on the new customer that we have coming to Pocono, which we continue to believe is a really exciting opportunity. That opportunity was one that was built up over many, many years by slowly building the relationship. It's one where actually we are going to see genuine diversification in our, and effectively our paediatrics business. The business that is core to the way we've developed the things that we're really good at. So that'll bring balance and the risk associate and brings a key customer for that Pocono investment, and then making sure our ingredients business works really well.  
  
It's always been a really important part of the business. At times we've lost sight of that. It's grown in volume. I'm not going to say it's grown in importance. It's been important, but perhaps we haven't focused on it as much as we should. It's core. This business makes money because it has a good solid ingredients business where we buy farmers milk. We make premium ingredient products, and we have a really good range of customers who we sell that to. And then we match that market with higher value products, the paediatric prep products, the formulated products that we manufacture, and these days take all the way through to finish consumer products for our customers. That remains core it's when we do it well, that's a very good earner, but part of the reason it does well is because it's built on that solid ingredients business. And you'll see, it's getting back to getting those things working really well again.

**Marcus Curley:** Okay thank you.

**Operator:** Next question comes from Angie McLennan from Goldman Sachs. Please go ahead.

**Angie McLennan:** Good morning, John. Robin. And thanks very much for your comments to date. Just two quick questions from me. And it certainly sounds like you're reasonably confident in this regard, but just thinking about covenant management in fiscal 22. How comfortable do you feel based on how the business is likely to be running during that period? Do you think that you'll need to continue to manage the banks during that period? And maybe if you could sort of talk to how you expect that mix change, John, you talk about marching up the value curve. I'm just wondering how dramatic the mix might move in fiscal 22.

**John Penno:** What you'll see us doing, when we start talking to our plan in 22, you won't see us making heroic assumptions about big changes. What you will see one-off effects that we see contain to FY 21 coming out of the forward projections, right? So, number one, there's been a lot of talk over the last three or four months about the impact that the unrecovered fixed costs and our formulated dairy business have had, the impact that that had. We carried a lot of base powder and been treated in, we haven't needed to manufacture very much. And so we've got a lot of unrecovered fixed costs in the business this year that will be gone, that we will have worked our way through that. That's a big number that'll we'll return to even if we repeat our sales volumes of IFC for next year, you'll see that come right back and to the business. Second piece is this ingredients piece that I've been talking about, we see no reason that we won't be able to return to managing that the way that we normally do in the earnings relative to prevailing market conditions returned to normal.  
  
Now those two things happen we're back robustly profitable. Then beyond that into 23, that's with this coming on with some other opportunities we're working out, that's when you'll see perhaps the returning to the sort of mix between ingredient and value, add opportunities that we've been used to over recent years.

**Angie McLennan**: Thank you so much for that. So just in terms of how you balance out your strategy versus the interest of your major shareholders, do you see any potential problems in that regard?

**John Penno:** No. It's two major shareholders. Firstly, Brights of China, the amount of business that we do with Brights has always been reasonably small. So that's not a big issue. Largely a financial investor want to see us doing a good job running the business. That always comes first and foremost. Look, we do a little bit of business with them and actually we're talking about a few opportunities at the moment that if they come to fruition might be a little bit more business than we've done, but it's all commercial arms linked stuff. Of course, actually we have the same relationship with A2 A2, almost 20%, but a really important customer because we manufacture such a high proportion of near IFC business, which is so important for their business. So you'll see us continuing to work really closely with A2. Given the landscape that we've got in front of us in terms of volumes, in terms of the strategic imperatives in their business and ours and a new CEO in place over there.  
  
Like I think the UFC is working constructively with them. They've been quite public about their need to build a clear view of their supply chain. That'll be really important for us because it allows us to plan better. Allows us to manage our inventory better. I think that we're a hundred percent aligned on those things. It actually also allows us to serve them better as they had changes in their requirements and in terms of off-take volume. So I don't see any challenges in where we are heading and the changes you'll see us make. I think it'll help overcome some of the things that we've learned in the last couple of years We've just been sort of growing and focusing on that growth or that customer. You'll see us taking a more balanced view across the business going forward.

**Angie McLennan:** Thank you very much.

**Operator:** Thank you. Your next question comes from Maya Sari. From Radio instead. Please go ahead.

**Maya Sari:** John and Rob. I am just wondering if you can give any indication on how things are tracking for your forecast milk price, and also any broader message you might want to give our farmer suppliers who are potentially concerned by isolized performance at the moment.

**John Penno:** Thanks Maya. Ultimately we're a dairy company and we need a strong support from our farmers. The farmers never liked to see the company that they're making struggling. And we have this year. Again I'd like to remind everybody that we've had nine straight years of profitability and some really strong profitability, particularly through the last three or four years. And we say there's a story where we see some short-term issues and we see ourselves returning to that position pretty quickly. There's no great change in strategy, working with our farmers to make sure they are doing all they can to add as much value inside the farm gate. Us rewarding them for that. We've always had a promise to our farmers that we will leave them better off in the long run than their alternatives. That remains absolutely true and dear to our hearts. So we're not at all concerned that this will see us deviate from that. But I know, as they should, they'll wait and see what we do. Doesn't really matter at this point what companies say, it's what that number is at the end. And we fully understand that and we don't believe they'll be disappointed.

**Maya Sari:** So you can say you're competent you can guarantee competitive milk price. Or what are you saying?

**John Penno:** It's not about that. Like some years we do a little better and other years we don't do quite as well. We have some very big premiums that the vast majority of our farmers are part of now. And if you look back at the average milk price that some paid versus others in the market by and large our farmers have been well-rewarded, we don't see that changing.

**Maya Sari:** Thank you.

**Operator:** Thank you. Your next question comes from David Oxley from ACC. Please go ahead.

**David Oxley:** Yeah, morning gentlemen. Can I just ask, just clarifying the scope for the profit rebound in FY 22. You obviously talk to the fact there'll be a reverse sort of the fixed overhead under recovery issue with regard to IFC as you won't be entering the air with such a large inventory position. I think your predecessor also talk to the fact that if you were able to have better visibility with regards to your ingredient production during the year, things would have been a lot easier.   
  
And given that you sort of suggest if we assume IFC volumes are flat, you should have therefore better visibility as to how much ingredients you're going to produce during a year. Could you just give an indication as to whether that second part is likely to be an important driver of a profit rebound and how that compares to the initial biggie that you mentioned in terms of the fixed overhead recovery issue with regard to the IFC? Thank you.

**Rob Stowell:** Look again, we'll give further detail when we come together and are able to have a complete view of FY21. And we talked to how we're thinking about FY22 in September. That's one of those ones that I'll push down the road a little bit, but what we are seeing here is that the recovery next year, there's two big parts to it. The first is, as you mentioned, the fixed cost recoveries that we'll get as our base powder manufacturing rebalances and from forming the canned off take. And the second is that we see that we'll be able to manage our ingredients business much better.  
  
It's probably fair to say that the IFB is more important, but we're seeing some pretty substantial numbers in the ingredients under performance this year and the magnitude of that rebuild next year. Some of that is things that we've done to ourselves. Some of it is just if you have a big volume that pushes over balance state because of shipping delays, the earnings from that and the cash from it, don't come in until that might be a matter of weeks after balance date, but that's not there in the year-in accounts.

**David Oxley:** Okay, thank you.

**Operator:** Thank you. Your next question comes from Jonathan Snape from Bell Potter. Please go ahead.

**Jonathan Snape:** Yeah, thanks. Hey guys, can you hear me okay?

**John Penno:** We can.

**Jonathan Snape:** Hello?

**John Penno:** This really is like the last three years has somehow disappeared. It's all the same people.

**Jonathan Snape:** It does feel a bit that way. Welcome back. But just a couple of questions and if I can do one on 22, and I know you're kind of kicking in a lot of these down the road, but I just want to make sure if I've got the main moving parts, right in terms of the bounce back. I mean, it sounds like a lot of these 20 to 30 million that you're calling out today is largely one-off or timing issues. So fees where you should get that back, plus you should be getting a recognition of margin in addition, coming into next year's number. I think before you've spoken about $22 million in cost initiatives, and I'm imagining you're still pretty comfortable with that number that's out there. And if not, love to hear why not.  
  
And then as well on the ingredients side of the equation, I think AMF and butter have seemed to in the last couple of trading sessions anyway, gone back to kind of their historical averages. And you would, I suspect, try and hope to get that back in there as well. I mean, for all those three things kind of unwind, I mean, you start to get those numbers that you're kind of talking about a big bounce back in profitability on flat volumes for IFC, would that be, I guess, a ballpark way of thinking about, I guess, moving parts without having to put too much into other bits?

**John Penno:** Yeah, I think that's a reasonable way of thinking about it, Jonathan.

**Jonathan Snape:** Okay. And then following on from that, I know you've mentioned covenant waivers for this year. Are you able to say how far they've given you waivers for? I think before you used to talk about a four times total debt to a three times extra bond, is that kind of still the thinking of where the business has to get back to say 12 months time or eighteen months time?

**Rob Stowell:** Look, Johno, it's Rob here. Look, yeah, with gain waivers and at the moment we're in a process to really stress test our P&L, our full P&L and balance sheet and discuss that internally and with the bank. So we're working through that. There's a lot of moving parts, as you know, but we'll be wanting to make sure that those forecasts are conservative enough and we've got enough head room within both our facilities and bank covenants to make through FY22 comfortably and beyond.

**Jonathan Snape:** All right. Great. Thanks a lot.

**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.  
  
You now have a follow-up question from Adrian Alban from Jardin. Please go ahead.

**Adrian Alban:** Good morning again. John and Rob, I was just wondering if can you just comment on, obviously this is as we sort of look forward from here over the sort of next six to 12 months, can you just sort of give us an update on what's sort of going on on the regulatory front? What sort of renewals you have to get on behalf of A2? What other sort of outstandings are on that part of the business?

**John Penno:** Yeah, look, nothing's changed there, Adrian. We are continuing to work towards the same dates that we've been talking to. It's a really important project for us, obviously, in terms of making sure that we get those renewals done. You know, we have to be mindful that we're in a COVID environment, where travel isn't going on, but there's been good progress in terms of between the New Zealand government and China, just to make sure that that is going to be achievable through the regulatory groups working together. So I don't think there's any change in the way that we're looking at those risks or the way we're managing them.  
  
What is there is that we still have other processes in place, which may open up other areas of business beyond the work that we're doing at the moment, again, going back in history, but those for more products, more brand slots, that's actually still in play. And I'm just starting to turn my mind back with our team, to how we positioned the company properly with those things underneath the all important objective of making sure that we maintain our regulatory approval for the China product for A2.  
  
But we don't have anything particularly to point to in terms of additional concern there.

**Adrian Alban:** And just for a reminder, what is that sort of milestone date for the China label?

**John Penno:** I think it's about 18 months away. But again, just look back to what we said last time because I haven't got that. I'm not across everything after three weeks and that's why [crosstalk 00:46:20]. Data's not one of the things...

**Hannah Lynch:** Adrian, we've loosely signalled mid 2022.

**John Penno:** Yeah, yep.

**Adrian Alban:** Okay.

**John Penno:** I do know there's a lot of work going on and they're not too worried about getting their way to that.

**Operator:** Thank you. Your next question comes from Nick Ma from Macquarie. Please go ahead.

**Nick Ma:** Hi guys. Just on the update today, any of the stuff that you've done around talking about a more conservative approach to things like year-end inventory, does that at all kind of, I guess, actively push earnings into 22 to obviously help make those covenants a little bit easier given you've already waived the 21 covenant?

**John Penno:** Yeah, that's a really good question, Nick. No, we're not putting any attention on that. It's really just about making sure that we're being realistic about the volume and value of that inventory. And it is more than, I mean, it's actually about standing back and thinking about our balance sheet, thinking about where we can release cash from, making sure that we're sort of managing through this period sensibly and conservatively. It goes to the overall theme of this call, I hope, which is we're looking at ways to get our sales up, get our cost structure down and make sure that we're not committing more capital than we need to. Some of those basic things that businesses need to do to run well, that we've taken our eye off the ball through the years when we were growing fast and earning plenty of money in committing capital.

**Nick Ma:** Okay, cool. And then obviously you're kind of back in the old role and you've been on the board. Is there anything from what you've seen, any assets that you would consider selling over the next kind of 12 months?

**John Penno:** Look, at these moments, of course, you've got to look across the portfolio of assets that we have. You won't see us selling any strategic assets, but if we're holding assets that we don't need to, of course we'd have to consider that as a way of making sure that we make that balance sheet work a bit harder. And that's a hundred percent in line with what I've just said, how do we get our sales going well? How do we manage our costs and how do we make sure that we're not committing capital that we don't need to.

**Nick Ma:** So, which assets are non-strategic?

**John Penno:** I'm not going to be drawn on that, and that's a good question, though. I mean, there won't be big material assets, they're not big parts of the... We're not looking it selling off big parts of the business or anything, but pieces of property or land or things like that, you'll see us thinking of that.

**Nick Ma:** Okay, no that's good. Thanks.

**Operator:** Thank you. There are no further questions at this time. I'll now hand back to John for closing remarks.

**John Penno:** All right. Thanks to everybody. Thanks for your thought and comments. And one thing that we will be doing is looking to catch up with a number of you in a couple of weeks time when Rob and I have sort of go our... Rob's been in the role for a week now, I've been in here for a couple of weeks. Look we do, given the number of changes that have gone on, we see it as we do want to give people the chance to sort of sit down and talk to us further about FY21 and as far as we can, FY22. And then leading into a normal road show after we close out the year in September. So I do look forward to catching up with you and getting your ongoing observations of the business.  
  
And so thank you very much for your time today.

**Operator:** Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

**[END OF TRANSCRIPT]**