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## Separation of GrainCorp portfolio to unlock shareholder value

- GrainCorp intends to demerge its global malting business (“MaltCo”)
- GrainCorp’s Grains and Oils businesses will be combined into an integrated grains and edible oils business (“New GrainCorp”)
- The proposed demerger would enable both MaltCo and New GrainCorp to pursue independent operating strategies, with discrete capital structures, and attract investors with different priorities
- New GrainCorp is evaluating options to reduce cash flow volatility, including consideration of a long-term grain production derivative instrument
- The proposed creation of MaltCo and New GrainCorp would enable and accelerate simplification and cost reduction initiatives expected to deliver annualised cost saving to New GrainCorp of approximately \$20 million
- Targeting implementation of the demerger by the end of CY2019
- Engagement with parties who have expressed an interest in part or parts of GrainCorp’s portfolio, and with Long-Term Asset Partners Pty Ltd, continues in parallel

GrainCorp Limited (“GrainCorp” or “the Company”) today announced its intention to demerge its global malting business, subject to shareholder and other approvals.

The proposed demerger would result in two independent ASX-listed companies:

1. MaltCo, a global malting and craft brewing distribution business; and
2. New GrainCorp, a domestic and international grain handling, storage, trading and processing business focused on grains, oilseeds, pulses, edible oils and feeds.

GrainCorp Chairman, Graham Bradley, said: “The Board believes that the demerger would unlock significant value for shareholders by establishing two unique and high quality ASX-listed agribusinesses with focussed management teams able to pursue independent strategies and growth opportunities.”

GrainCorp CEO, Mark Palmquist, said: “Our Portfolio Review made clear that these businesses have different characteristics and would benefit from operating separately. A demerger would provide both MaltCo and New GrainCorp with increased flexibility to implement independent operating strategies and capital structures and allow them to attract investors with different investment priorities.”

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In parallel with progressing a demerger of MaltCo, GrainCorp continues to engage actively with parties who have expressed an interest in acquiring part or parts of the GrainCorp portfolio. GrainCorp has also engaged extensively with Long-Term Asset Partners Pty Ltd (“LTAP”), however the Company has received no recent definitive update from LTAP. The GrainCorp Board will assess any proposal(s) received from these parties with the objective of maximising value for shareholders.

As a result of these engagements, there remains potential for GrainCorp, MaltCo or other portfolio businesses to be sold, potentially delivering a control premium that may deliver even greater value to shareholders.

### **MaltCo**

Following the proposed demerger, MaltCo will be the world’s fourth largest independent maltster with malting houses in the United States, Canada, Australia, and the United Kingdom. MaltCo also operates Country Malt Group, a leading craft malt distribution business in North America. MaltCo benefits from high quality, low operating cost processing assets strategically located in premium barley growing regions. These assets have benefited from significant historical investment and are expected to require stay in business capital expenditure of \$15-20 million per annum. In FY18, MaltCo generated EBITDA of \$170 million.

MaltCo’s strategic focus will be on further developing its international portfolio, including by building on the growth of the recently expanded 220,000 metric tonne Pocatello malting plant in Idaho, United States, and the current 79,000 metric tonne expansion of capacity in Inverness and Arbroath, Scotland. The specialty malt, whisky and craft beer markets which MaltCo services are experiencing substantial growth and MaltCo will be established with sufficient balance sheet flexibility to support the capital investment required to capture these growth opportunities. MaltCo will target maintaining a strong investment grade capital structure, with a policy of maintaining a ratio of net debt to EBITDA of no more than 2.0 - 2.5 times. It is expected that MaltCo will also target a dividend payout ratio of between 60% - 80% of underlying NPAT, delivering attractive returns to MaltCo shareholders.

Although the creation of MaltCo as a separate, listed company will involve some incremental corporate costs, it is expected that these will be more than offset by cost reduction initiatives to be implemented in MaltCo in the first year after demerger.

### **New GrainCorp**

Following the proposed demerger, New GrainCorp will be an integrated global agribusiness with grain handling, storage, trading and processing operations in Australia, New Zealand, North America, Asia, Europe and Ukraine, focused on grains, oilseeds, pulses, edible oils and feeds. New GrainCorp will operate the largest grains storage, transport and marketing network in eastern Australia as well as Australasia’s largest integrated edible oils business. New GrainCorp has a strategic focus on building and developing its global grain and oilseeds origination network, including through ongoing investment in the GrainsConnect Canada supply chain and growth into new markets in the Black Sea and Indian subcontinent. It is also targeting the domestic, on-farm and niche grains markets, including organics, as growth opportunities. New GrainCorp’s storage and logistics infrastructure assets comprise 145 country receival sites, with 20 million tonnes of storage capacity and seven bulk grain export terminals. This infrastructure plays a critical role in the eastern Australian grain export supply chain.

In addition to an ongoing focus on supply chain efficiency and the reduction of fixed costs, New GrainCorp is also evaluating the potential of utilising a grain production derivative instrument (“Grain Derivative”) to reduce cash flow volatility linked to grain harvest volumes. Should such a structure be agreed, New GrainCorp would receive cash flow protection where production is lower than an agreed threshold, in exchange for an annual fixed fee and payments to

the derivative counterparty where production is above an agreed threshold. GrainCorp has received an executed indicative term sheet for a long-term Grain Derivative from a leading global insurer. Entry into this Grain Derivative remains dependent on, among other matters, negotiating satisfactory full form documentation. This work is ongoing, however execution of the Grain Derivative is not a requirement for GrainCorp to proceed with the demerger of MaltCo.

After the demerger, New GrainCorp will target maintaining an investment grade capital structure. Further details of the New GrainCorp capital structure, including gearing and dividend policies along with any distribution of the proceeds from the sale of the Australian bulk liquid terminals, will be released once the sale of the Australian bulk liquid terminals has completed and evaluation of the proposed Grain Derivative has been finalised.

The assets comprising New GrainCorp generated FY14-FY18 average EBITDA of ~\$125 million before corporate costs. New GrainCorp is also expected to benefit from a range of initiatives already being delivered by the Grains business unit, which are expected to increase 'through-the-cycle' EBITDA by \$55-80 million per annum, consisting of:

- › Operational improvements in grain stocks management (\$10 million per annum – completed)
- › Grains cost reduction initiatives (\$15 million per annum – completed)
- › New rail contracts (\$10-15 million per annum – benefits commencing FY20)
- › ECA supply chain integration / improved asset utilisation (\$10-20 million per annum – implemented, full benefit from FY20)
- › Expanded international footprint in Canada, Ukraine and India and expanding organics (\$10-20 million per annum – underway).

In addition, the Oils business unit expects to increase EBITDA by \$15-25 million with ongoing benefits from Foods, improvements to management of crush margin and the Numurkah expansion.

The demerger of MaltCo will also enable and accelerate a number of business process simplification and cost reduction initiatives across New GrainCorp. These initiatives are expected to deliver an annualised cost reduction of approximately \$20 million. The initiatives include:

- › The integration of the Grains and Oils business units within New GrainCorp to eliminate duplication of costs and right-size corporate support functions (approximately \$10 million per annum implemented within the next 6-9 months)
- › Core business simplification initiatives resulting from separation of MaltCo (approximately \$10 million per annum, implemented within the first year following demerger).

As a result of the significant historic capital investment in the east coast grain storage and logistics infrastructure assets as well as the processing assets in the Oils business, New GrainCorp's future stay-in-business capital expenditure is expected to be approximately \$35-45 million per annum in a normal season.

### Implementation and management

If the demerger is implemented, GrainCorp shareholders will receive MaltCo shares in proportion to their shareholding in GrainCorp, while also retaining their GrainCorp shares. GrainCorp is engaging with the Australian Tax Office in



relation to demerger tax relief for the distribution of MaltCo shares to GrainCorp shareholders as part of the demerger. GrainCorp will advise on progress with its demerger tax relief application in due course.

The demerger is expected to be implemented by the end of CY2019 through a scheme of arrangement, subject to shareholder, final Board, court and regulatory approvals. GrainCorp will continue to keep shareholders informed on the progress of the demerger.

On demerger, Mark Palmquist will become Managing Director & Chief Executive Officer of MaltCo. Mr Palmquist will remain Chief Executive Officer of GrainCorp until completion of the demerger but, in light of his intended appointment to the board of MaltCo, he will now resign from his role as Managing Director and step down from the GrainCorp Board.

Klaus Pamminger, currently Group General Manager Grains, has been appointed as Chief Operating Officer of GrainCorp and, on demerger, Mr Pamminger will succeed Mr Palmquist as Managing Director and Chief Executive Officer of New GrainCorp.

Further details of the Boards and senior management teams of MaltCo and New GrainCorp will be provided to shareholders in due course.

## **FURTHER INFORMATION**

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