Australian Shareholders' Association

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# Cleanaway continues to plough on for shareholders

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| **Company/ASX Code** | Cleanaway Waste Management Limited |
| **AGM date** | Thursday 25 October 2018 |
| **Time and location** | 10am (EST) Customs House, 399 Queen St, Brisbane |
| **Registry** | Computershare |
| **Webcast** | No |
| **Poll or show of hands** | Poll on all items |
| **Monitor** | John Collins |
| **Pre-AGM Meeting?** | Yes, with Chairman Mark Chellew the day before AGM |

| **Item 1** | **Financial reports** |
|---|---|
| **ASA Vote** | No vote required |

**Summary of ASA Position**

**Governance and culture**

Cleanaway has a well-developed set of governance documents and appears to have a culture that supports the theme of the governance.

**Financial performance**

The company has done well financially over the year as can be seen from the table below. A cautionary note would appear to be the plateauing of the earnings before interest tax depreciation and amortisation (EBITDA) margin. It would appear the company is in need of a new growth opportunity and attention to costs. Tox Free may be such an opportunity.

As a result of the year's activities, the shares on issue is now 2.04 billion shares (up from 1.59 billion in 2017) and the gearing ratio is now approaching 30%. The increased shares on issue reduced the increase in net profit after tax (NPAT) on a per share basis (from 42% to 27%), and consequently the dividend. The company now has the task ahead to integrate Tox Free and realise the increase in earnings perceived in the acquisition business study. Investors will be closely watching the integration.

Whilst the total shareholder return (TSR) is 27%, the dividend yield is 1.7%.

**Key events**

CWY acquired Tox Free ($670.3m) funded by equity (capital raising of $581m) and in-house financial arrangements. Two other businesses ($25.5m) were also purchased during the year. Tox Free would seem a very attractive and appropriate purchase for CWY provided CWY can realise the value expected from the synergies.

## ASA focus issues

CWY gets a general good score card result in terms of ASA focus issues apart from one director with a shareholding value of substantially less than 12 months director fee and there being only one woman on the board (14%). Other issues are discussed later.

## Summary

| (As at FYE) | **2018** | **2017** | **2016** | **2015** |
|---|---|---|---|---|
| NPAT ($m) | 103.3 | 72.5 | 43.1 | -15.4 |
| UPAT ($m) | 97.8 | 77.5 | 61.6 | 53.9 |
| Share price ($) | 1.69 | 1.35 | 0.78 | 0.75 |
| Dividend (cents) | 2.2 | 1.9 | 1.7 | 1.5 |
| TSR (%) | 27 | 76 | 6 | -22 |
| EPS (cents) | 5.6 | 4.4 | 2.8 | -1.5 |
| CEO total remuneration, actual ($m) | 6.6 | 5.0 | 2.8 | NA |

For FY18, the CEO's total actual remuneration was **77 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2018 data from the Australian Bureau of Statistics).

Note - For May 2018, the Full-time adult average weekly total earnings (annualised) was $85,831.

| **Item 2** | **Adoption of Remuneration Report** |
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| **ASA Vote** | **Against** |

**Summary of ASA Position**

ASA voted against the remuneration report for FY17. Since then, the report has been streamlined and improved the readability otherwise, there appears little change.

The issues now are:

- The take-home pay for key management personnel (KMP) is difficult to assess, as there is no table of actual remuneration. It must be calculated using shares vested during the year and the share price at vesting. ASA did discuss a 'take home pay' table but this was not adopted.
- While acknowledging the vesting of incentives and strong share price performance has driven Vic Bansal's take home pay for the past two years, this appears too high when compared with ASA's calculations for other companies in the Commercial and Professional Services sector as follows: ALS ($2.3m), Brambles (US$2.5m), Downer EDI ($3.7m) and McMillan Shakespeare ($0.9m).

- There are a number of positives for the STI and LTI. The number of performance rights are allocated using face value, and the STI includes a Health Safety & Environment (HSE) gateway (no work-related deaths and no significant and major rated environmental incidents) plus 20% related to additional HSE metrics. However only 20% of STI is paid as equity with a 12-month lock while the performance period for LTIs is 3 years. ASA prefers 50% equities for STIs and 4 or 5 years for LTI. ASA also prefers a LTI gateway of a positive TSR.

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| **Item 3a** | **Re-election of Ray Smith as a Director** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

Mr Smith has been on the Board for 7.3 years. He is Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee. He is NED on Board of the K & S Corporation (since 2008).

He has appropriate past Board experience. He has tertiary qualifications in commerce and is a Fellow of CPA and of the AICD.

He meets ASA requirements preferred level of shareholding for NEDs and is congratulated for making visible his confidence in the future of the Company.

It is re-assuring that the Board has apparently recognised the need for changes in the 2019 LTI hurdles. Presumably this came from the Remuneration and Nomination committee of which Mr Smith is member. It is surprising that the Committee did not change the hurdle settings for the Relative TSR (which seems to be the one that is in most need of change).

Mr Smith appears to have the experience and qualifications to be a director of CWY and accordingly ASA will support his re-election.

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| **Item 3b** | **Re-election of Emma Stein as a Director** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

Ms Stein has been on the Board for 6.9 years. She is a member of the Audit and Risk committee and a member of the Health, Safety and Environment committee.

She is a NED for Alumina Limited (since 2011) and Infigen Energy (since 2017).

She has appropriate past Board experience.

She has tertiary qualification in science, holds a MBA, a Honorary Fellow of the University of Western Sydney and a Fellow of the AICD.

She comfortably meets the ASA preferred level of shareholding and is congratulated for making visible her confidence in the future of the Company.

Ms Stein appears to have the experience and the qualifications to be a director of CWY and accordingly, ASA will support her re-election.

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| **Item 4a** | **Approval of LTI grant to CEO/Managing Director Vic Bansal** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

Approval is sought for the granting of 1,208,615 rights under the 2019 LTIP offer. This figure was calculated using his TFR divided by the 5-day VWAP ending 25 June 2018 and multiplied by a factor of 1.5 to represent the stretch opportunity.

Vesting occurs over a 3-year performance period ending 2021.

The hurdles proposed being:

- Relative TSR to companies (excluding mining, financial services and overseas domiciled companies) in the ASX200 weighted 50%,
- NPAT ROIC weighted 25%
- Underlying EPS CAGR weighted 25%

It is noted that the hurdles for NPAT ROIC and Underlying EPS CAGR have been revised upwards from those in the 2017 LTIP which seems to be appropriate. However, the award relating to relative TSR has been vesting at 100%, and may indicate it is too easy to satisfy.

ASA has issues with:

- the performance period of 3 years preferring 4 or 5 years
- using Underlying EPS CAGR which may have appropriate when Vic Bansal first started, but now the Statutory figures are probably more appropriate
- the incentive structure is resulting in high levels of take home pay.

It is noted that the LTI hurdles have been adjusted upwards, ASA will monitor the impact on the variability of remuneration. The system certainly has identified the hard work Vic Bansal has put into the company and correctly identifies such work. ASA believes the implementation of the Tox Free Integration Plan should be covered by this grant.

ASA will support the 2019 LTI Grant.

| Item 4b | Approval of Tox Free Integration Performance grant to CEO/Managing Director Vic Bansal |
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| ASA Vote | Against |

**Summary of ASA Position**

Approval is sought to grant Vic Bansal 186,643 rights under the Tox Free Integration Plan. This figure was calculated by dividing 37.5% of Vic's TFR by the five-day VWAP ending 29 June 2018.

These will be tested on the 29 June 2020.

The performance hurdle is that the EBITDA for the year ending 29 June 2020 must exceed the Tox Free acquisition business case EBITDA estimated for year ending 29 June 2020.

The Board claims commercially sensitive figures and does not publish them but claim significant earnings growth in the Business case, if achieved, that will justify the Grant and, the that the Grant will be of benefit to shareholders.

Given the issues arising from this acquisition it is easy to understand that matter needs close attention. However, Vic currently has seven General Managers reporting to him including a General Manager Integration. On this basis, the management of Tox Free integration would be carried out under the established CEO/General Management hierarchy. Under these arrangements awards for Tox Free achieving budgeted figures would be included in the normal STI and LTI awards process. ASA does not see the need for an exceptional award for Vic to ensure the planned Tox Free integration is achieved.

On this basis, ASA will not support the granting of rights under the TIIP.

| Item 4c | Approval of deferred ST grant to CEO/Managing Director Vic Bansal |
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| ASA Vote | For |

**Summary of ASA Position**

Approval is sought to grant Vic Bansal 186,137 rights under the CWY Deferred Equity Plan.

This number rights represents 20% of Vic's 2018 STI divided by the 5-day VWAP ending 29 June 2018.

The rights vest on the 30 June 2019.

The 2018 STI is granted on Gateway and a five hurdle Score Card basis. The Gateway required a certain EBITDA (based on year's budget) and no deaths or serious environmental incidents. These were achieved. The Score Card system presumably is based on the year's budget as is related to an 'At Target' (75% of Vic's TFR) on various levels of achievement. The basis of award is not clear and replication of the STI calculation requires a considerable guesswork.

The 2018 STI performance outcomes were varied and the safety hurdle achieved 'Above Threshold' whereas the other measures were achieved at or above target or at stretch levels. It seems the STI system may need review as consistent 100% attainment is more in keeping with fixed remuneration than variable remuneration.

ASA has the following issues:

- A deferred payment of 20%, ASA prefers 50%
- The STI system appears to be in need of review, particularly the Safety related incentive.
- ASA also prefer a LTI gateway of a positive TSR for the relative TSR portion.

Despite these issues, the quantum appears to be within the limits of expectations. ASA would expect some changes should a review be completed.

On the basis, ASA will support the grant of rights under the 2018 CWY Deferred Equity Plan

| **Item 5** | **Increase in Non-Executive Directors aggregate fee pool** |
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| **ASA Vote** | **For** |

**Summary of ASA Position**

The Board wants to increase the non-executive directors (NED) fee pool from $1,200,000 to $1,500,000. The reasons for the request are that NEDs total TFRs for 2018 is $1.19M and is now covering a much larger company since the inclusion of Tox Free. Further, the fee pool has not been increased since 2010. ASA supports the increase.

| **Item 6a** | **Renewal of proportional takeover provisions** |
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| **ASA Vote** | **For** |

**Summary of ASA Position**

ASA supports the renewal of proportional takeover provisions.

| **Item 6b** | **Amend the *Proportional Takeover Provisions* for the definition of *Deadline*.** |
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| **ASA Vote** | **For** |

**Summary of ASA Position**

This amendment allows for some flexibility with dates of holding a meeting to decide on a proportional takeover offer. ASA supports the amendment.

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| **Item 7** | **Financial assistance in connection with Tox Free Acquisition** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

The request to support Financial Assistance would appear necessary and well covered by ASIC regulation. As the major objective is an attempt is to spread the repayment of loans over the longer period under the conditions of the Syndicated Facility agreement, it appears sensible to support the request. The alternatives are not encouraging should the request fail.

ASA supports the request to provide financial assistance in connection with the Tox Free acquisition.

The individual who prepared these voting intentions has a shareholding in this company.