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Fair result in tough conditions

Company/ASX Code	Elders Limited (ELD)
AGM date	Thursday 12 December 2019
Time and location	10am City Room, Adelaide Convention Centre, North Terrace
Registry	Boardroom
Webcast	No
Poll or show of hands	Poll
Monitor	Ken Wakeman assisted by Bob Ritchie
Pre AGM Meeting?	Yes, with Chair Ian Wilton (phone), CEO Mark Allison (phone) and Company Secretary Peter Hastings

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Return on capital (ROC) was 18.2% down from 24% in Financial Year 2018 (FY18). Considering the climate conditions particularly in southern Queensland and northern NSW, this result is quite good. ELD has indicated that it is being mindful of adverse weather events and natural events that could affect its business in the coming financial year.

Variation in cash flow has been noted in previous years as subject to timing of large trades and variability in seasonal conditions. There has been a significant improvement in cash flow with operating cash flow increasing by 23.4% from FY18's negative $12.1m to a positive of $11.2m and total cash flow going from negative $23.5m to negative $4.3m between FY18 and FY19.

Governance and culture

Website statements and annual reports indicate the company places strong emphasis on culture. As mentioned last year, a particularly pleasing feature is the policy on whistle blowing which includes a third party confidential phone line.

Financial performance

ROC = 18%

Dividend 18 cents fully franked; representing 2.8% yield on investment at a share price of $6.32 and a grossed up yield about 3.5%.

Attention should be given to tax relief in earlier years when analysing the difference between the underlying and statutory NPAT for FY16 through FY19 in the table below. In this company, in this period of four years, underlying may be a better guide than statutory NPAT.

Key events

The company announced an acquisition of Australian Independent Rural Retailers ("AIRR") and capital raising to fund this acquisition. Shareholders in AIRR were offered a mixture of 50% cash at a premium of 27% ($10.851) and 50% Elder's shares. The capital raising consisted of an institutional placement of approximately $40 million and a fully underwritten institutional and retail offer of approximately $97 million at $5.50 a share (a 9.5% discount to ELD shares at 12 July 2019). The offer was a 1 for 6.7 pro-rata accelerated non-renounceable entitlement offer with an option to apply for additional shares.

Key Board or senior management changes

Chair Michael Carroll, who took over from Hutch Ranck at last year's AGM, resigned and director Mr Ian Wilton was appointed to the role of Chair. Mr Carroll remains on the board.

Summary

(As at FYE)	**2018**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	68.9	71.6	116.0	51.6	38.3
UPAT ($m)	63.6	63.6	57.7	41.2	28.0
Share price ($)	6.32	7.09	4.85	3.87	4.33
Dividend (cents)	18	18	15	nil	Nil
TSR (%)	-8.3%	+50%	+36%	-10%	45%
EPS (cents)	57.0	62.0	101.8	56.9	46.4
CEO total remuneration, actual ($m)	3.2	4.1	1.7	1.47	Not disclosed

For FY19, the CEO's total actual remuneration was **36 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

(a) **The fixed remuneration** of directors and executives is in line with similar companies.

(b) **The short-term incentive (STI)** is based on four components, each clearly described in general terms but not specified in detail in the annual report (page 54) and the weighting for each component is clear.

(c) **The long-term incentive (LTI)** scheme has a gate covering all three components: absolute Total Shareholder Return (TSR) (50%), Earnings Per Share (EPS) growth (25%) and Return on Capital

(25%). Absolute TSR must be positive. LTI elements are clearly described given the reconciliation of underlying with statutory profit on page 14 of the annual report.

Overall, ASA feels the report is clear and sound.

CEO rem. framework	Target* $000	% of Total	Max. Opportunity $000	% of Total
Fixed Remuneration	916	59%	916	32%
STI - Cash	0	0%	916	32%
STI - Equity	0	0%	0	0
LTI	630	41%	1008	36%
Total	1,546	100.0%	2,840	100%

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan.

*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Item 3	**Re-election of Mr Ian Wilton as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Wilton has been a director since 2014 and was appointed chair in September this year. He has an excellent background to contribute to Elders' board and company, including executive positions with Ridley Corporation and Graincorp Malt. From the time he joined the board he has been an integral part of Elders' turnaround.

Mr Wilton is a resident of NSW.

Item 4	**Approval of grant of performance rights as LTI Managing Director Mark Allison**
ASA Vote	**For**

Summary of ASA Position

The proposed award of up to 166,000 performance rights is the LTI component of FY20 remuneration for the MD. Performance is to be tested over the three year period 1 October 2019 to 30 September 2022. There are three components of LTI: **TSR** (absolute shareholder return, 50%), **EPS** (earnings per share) growth (25%) and **ROC** (return on capital, 25%). The maximum incentive is set at 110% of FAR for FY20 (fixed annual remuneration which includes superannuation and other benefits).

TSR (Absolute Total Shareholder Return)

The opening share price has been set at $6.27, this being the 5 trading day VWAP up to 30 September and the closing value will be based on the 5 trading day VWAP up to 30 September 2022. The target measure is 10% Compound Annual Growth Rate (CAGR) with the stretch measure of 14% CAGR. The rights will vest at 50% if the target is reached, 100% if the stretch is reached and between 50-100% on a straight-line sliding scale if the CAGR is between 10-14%.

EPS (Earnings per Share)

10% CAGR in EPS over the three years would be 75.9 cents and this would achieve maximum award for this tranche. 7% CAGR for EPS would be 69.8 cents and would achieve half the maximum award. Intermediate performance would be awarded proportionally. There would be no award if TSR is below 7%.

ROC (Return on Capital)

ROC vesting occurs in full if average ROC is 18% at 30 September 2022. At an average ROC of 15% then 50% of the award will vest. Intermediate performance would be awarded proportionally. There would be no award if ROC is below 15%.

The number of shares awarded in total for LTI would be adjusted upward to allow for the value of dividends foregone over the three years.

The foregoing information is described a little differently but clearly in the explanatory notes forming part of the notice of meeting (pages 7-9).

While we would prefer a longer testing period in normal circumstances, the current planning periods for this turnaround and development strategy are rolling three years. When this strategy is replaced after 2021, we will be looking for a longer horizon.

Item 5	**Approval of financial assistance**
ASA Vote	**For**

Summary of ASA Position

This is a special resolution requiring a 75% majority to pass.

It is a normal arrangement, providing for a newly acquired wholly owned subsidiary to provide security to a financier in its own right.

Item 6	Ratification of prior issue of securities
ASA Vote	**For**

Summary of ASA Position

Generally, under ASX Listing Rule 7.1, a company may, in any 12 month period, issue without the prior approval of shareholders, new shares up to 15% of the number of shares on issue 12 months before the date of the issue of the new shares unless an exception applies.

ASX Listing Rule 7.4 provides that an issue by a company of securities made without shareholder approval under ASX Listing Rule 7.1 is treated as having been made with approval if the issue did not breach ASX Listing Rule 7.1 when it was made and the Company's shareholders subsequently approve it.

The issue of the securities under the placement did not breach ASX Listing Rule 7.1 and has not previously been approved by shareholders. The Company seeks shareholder approval for the issue of the shares issued in the placement pursuant to ASX Listing Rule 7.4.

The effect of passing the resolution will be to refresh the Company's 15% capacity under ASX Listing Rule 7.1. This resolution, if passed, will increase the Company's financial flexibility in the future. Currently the Company does not intend to undertake any further issue of securities in the event that approval is received from shareholders in respect of the resolution.

The board has said it will only decide to issue further equity securities if it considers it is in the best interests of the Company to do so.

The individuals or their associates involved in the preparation of this voting intention have no shareholding in this company.