



## Solid result in a tough year

<b>Company/ASX Code</b>	Incitec Pivot Limited
<b>AGM date</b>	Friday 18 December, 2020
<b>Time and location</b>	11 am AEDT Virtual
<b>Registry</b>	Link Market Services
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll
<b>Monitor</b>	Peter Aird assisted by Chris Lobb
<b>Pre AGM Meeting?</b>	Yes with Chair Brian Kruger NED Greg Robinson (Chair Remuneration committee) and Company Secretary Richa Puri

The individual involved in the preparation of this voting intention has a shareholding in this company.

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

### Summary of ASA Position

Whilst the year was described as “very challenging”, Incitec Pivot (IPL) have shown its resilience, keeping its people and customers safe whilst continuing to operate and ensuring continuing supply to essential resource and agricultural industries.

### Governance and culture

IPL provide a comprehensive document on Corporate Governance on their web site. This includes the responsibility, structure and skills of the Board, employee diversity, business ethics and rights of shareholders. The Annual Report included details of IPL’s response to the COVID-19 pandemic, the Zero Harm strategy and Sustainability including Climate Change strategy and Community involvement. IPL publish a Sustainability Summary annually showing good progress on these issues.

### Financial performance

Overall sales were up very slightly to \$3,942m (0.6%) and Earnings Before Interest and Tax (EBIT) was up 23% to \$374.5m in spite of continuing weak commodity prices. Manufacturing performance was much improved after the interruptions in FY2019. Net Profit After Tax (NPAT) was down (to \$123.4m) after non-recurring Individual Material Items (IMI’s) totalling \$65m. The IMI’s include the write down of obsolete technologies and the implementation costs of IPL’s Response Plan. The Response Plan is a program to ameliorate the impact of lower commodity prices and COVID-19 and targets sustainable savings of \$60m over 3 years with \$20m achieved in the current period.

The Board decided not to declare any dividend for FY2020, given the continuing uncertainty due to the pandemic and the capital raising completed during the year. The net capital raised (\$646m) was used to pay down net debt (to \$1.03b), reducing the Net Debt to EBITDA ratio to 1.4 (from 2.8). Company dividend policy to pay between 30-60% of NPAT remains unchanged

IPL's continuing profitability is affected by a sustained period of low commodity prices, made worse by current supply/demand imbalance. They will review exposure to products/processes that do not recover and see the current situation as an opportunity to accelerate some activities. Their new CFO is bringing new eyes to the business and the potential for further change.

### **Key events**

Incitec Pivot had announced a strategic review of their Fertiliser business in 2019. It announced in April 2020 that the review had been completed with the decision to retain the business. IPL had concluded that "given the extraordinary market uncertainty and travel restrictions caused by the COVID-19 pandemic", the right outcome was to retain the business. Its future focus would now be on "soil health" through more efficient products, product application and breakdown of those products in use.

Incitec Pivot undertook a capital raising in May 2020, initially through an institutional placement to raise \$600m and then a Share Purchase Plan (SPP) for other shareholders. The purpose of the raising was to "strengthen IPL's Balance Sheet" and was used to pay down debt. Asked why they did not use a pro-rata renounceable entitlement offer, IPL indicated as its shareholders were mostly institutional, it preferred the method used, which still allowed retail shareholders to participate via the SPP.

### **Key Board or senior management changes**

Mr Frank Micallef chose to retire as Chief Financial Officer after 10 years in June. He was replaced on 1 July 2020 by Mr Nick Stratford who had been President of Dyno Nobel Americas (DNA). Mr Stratford has over 20 years' experience in international finance and business management, having previously been IPL's Group Financial Controller and DNA's COO/CFO.

Non-Executive Director (NED) Joseph Breunig resigned from the Board in February and NED Ms McGrath will retire from the Board at the end of this year's AGM, having served 9 years. Mr George Biltz was appointed to the Board on 1<sup>st</sup> Dec 2020 (see Item 2 below). Mr Gregory Robinson has been appointed Chair of the Remuneration Committee. The Board will seek a replacement for Ms McGrath, preferably with a similar skill set.

### **Risk management**

The COVID-19 pandemic did not have a significant impact on IPL's operations, although the recent surge in infection in the US has led to a relatively small number of employees (10's) becoming infected through community transmission outside the workplace. Given its business, IPL has well established crisis management systems which were implemented in March, with its the strong safety culture keeping employees safe. Restrictions on travel for example have led to new ways of management staying in contact with employees and operations.

Noting that IPL has had the same Auditor since 2011, they indicated that they had no plan to make any change and that the Audit Partner had recently changed. The CFO benchmarks Audits costs and performance against industry peers.

## **Summary**

(As at FYE)	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
NPAT (\$m)	123.4	152.4	207.9	318.7	128.1
UPAT (\$m)	188.2	152.4	347.4	318.7	428.1
Share price (\$)	2.03	3.39	3.98	3.60	2.82
Dividend (cents)	-	4.7	10.7	9.4	8.7
TSR (%)	(40.1)	(13.1)	13.5	27.9	(27.7)
EPS (cents)	10.9	9.5	20.9	18.9	17.5
CEO total remuneration, actual (\$m)	1.65	2.77	1.6	2.4	4.2

For 2020, the CEO's total actual remuneration was 17.9 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

<b>Item 2a</b>	<b>Re-election of Mr George Biltz as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### **Summary of ASA Position**

Mr Biltz was appointed to the Board in December 2020. He is a chemical engineer with extensive global executive experience in the industrial chemical manufacturing sector, including over 30 years with the Dow Chemical Company. He is currently the Executive Chair of the Board at Kymera International and is based in the United States of America (USA).

The company provides clear justification in the AGM Notice Explanatory Notes for his election to the Board in terms of his experience in the industry, particularly in the USA, given IPL's large presence in that market. His skills and experience align well with those identified in the Board Skills and Experience analysis in the company's Corporate Governance Statement. On this basis, a vote For is appropriate.

<b>Item 2b</b>	<b>Re-election of Mr Brian Kruger as a Director</b>
<b>ASA Vote</b>	<b>For</b>

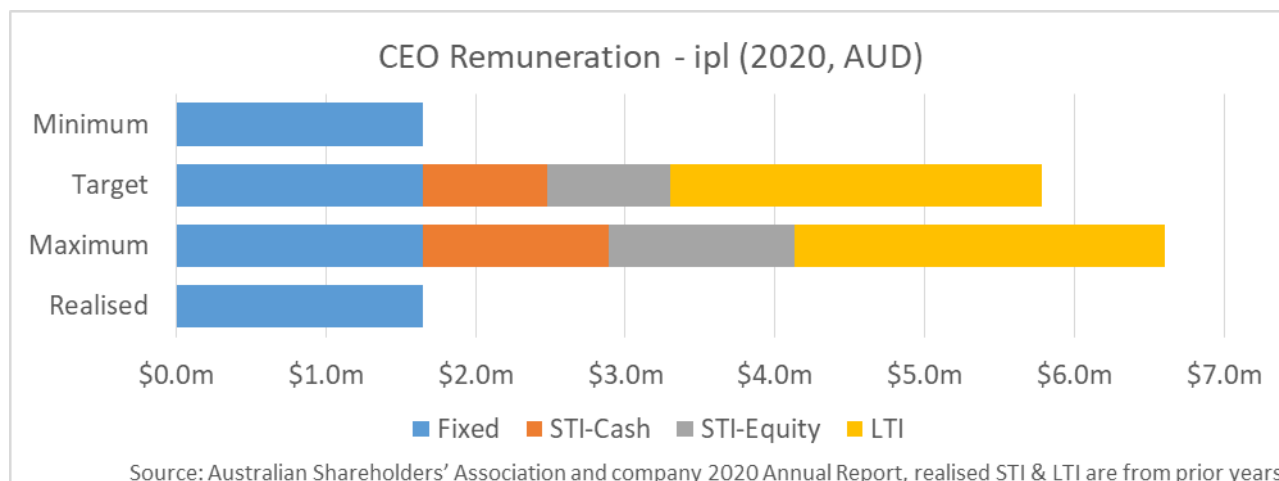
### **Summary of ASA Position**

Mr Kruger was appointed to the Board in June 2017. He was appointed Board Chairman in July 2019 and is a member of the Nomination Committee (Chairman), Remuneration and HSEC Committees. He is also currently the non-executive Chairman of Racing Victoria Ltd.

Brian is the former CEO of Toll Holdings (2012-2016) and prior to Toll had a career in the resources and industrial sectors in Australia and the US with finance and management roles. His industry experience and knowledge of manufacturing operations continue to be of benefit to IPL and ASA supports his re-election.

<b>Item 3</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position



Note: In FY2020 the CEO also exercised rights valued at \$440,000 from her FY2018 STI award (not shown).

The Remuneration Report is well set out, clear and provides extensive relevant information. A one-page Introduction from the Chairman of the Remuneration Committee provides the highlights. The Report includes details of the Strategy, the Framework and outcomes of Executive and Board Remuneration.

No Short Term Incentives (STI) were paid for FY2020 as the Group Financial Gateway was not achieved and the Zero Harm gate did not open as a result of the fatality incident in America. Long Term Incentive (LTI) for FY2017-20 financial targets (Total shareholder Return (TSR) and Return on Equity (RoE) were not achieved so that the only performance rights awarded relate to Strategic Initiatives (15% of total) which were partially awarded (resulting in 10% of the total awarded).

A Strategic Review Performance bonus of \$487,500 was paid to Mr Steven Titze, President of Incitec Pivot Fertiliser. This is 75% of his Fixed Annual Remuneration (FAR) and 75% of the total opportunity available. It relates to leading the continuing operations (not covered by the 2020 STI program) during the strategic review and conditions specific to the review itself. The bonus recognises "the outstanding performance of Mr Titze" throughout the process. Business performance targets, particularly financial, were met and the business direction was maintained.

ASA have had access to Godfrey Remuneration Group (GRG) data this year for Australian companies. For an Industrial business with Market Capitalisation of \$2-5 billion, this indicates that the CEO's FAR and Chairman's Fees are above the P75 level, whilst the CFO's FAR and Director's Fees are at the 50th percentile. It is noted that Ms Johns FAR is well below that of her predecessor and the Chairman's fees are the same as the previous incumbent.

Whilst no structural changes to Remuneration in the 2021 financial year are planned, a number of "minor adjustments" will be made.

Following 2 years of failure to meet the NPAT gate requirement for the STI, this gate has been modified so that a failure caps all non-safety metrics (eg Business Unit adjusted EBIT) at the target level. The Credit Rating gate has been removed and a new strategic measure emphasising cash and cost control will be introduced. It is noted that a minimum of 25% of any STI award (50% for CEO) must be taken as restricted shares until the Executive Minimum Shareholding Requirement (MSR, 50% of FAR for Executives, 100% for FAR for the CEO) is met.

The LTI Strategic Initiatives condition is replaced by a Long Term Value Metric (LTVM), based on key strategic priorities and with reduced value (20% of total), so that financial targets now make up 80% of the reward.

Directors are also subject to an MSR and an option of fee sacrifice has been put in place to facilitate this requirement. All Directors currently satisfy their MSR requirement.

The report includes Executive statutory and actual remuneration (without the value of STI or LTI rights vesting), remuneration of Directors and shareholdings of Directors and Executives.

However, the substantial cash bonus paid to Mr Titze is of concern. Whilst the Chairman strongly indicated his support for the payment, the ASA is concerned that Mr Titze has been provided a special bonus that is outside the published remuneration plan in full knowledge that the business review was proceeding. There is no revelation as to the assessment of his performance (only 75% of the opportunity available was paid) with 50% assessed against his ongoing role and 50% against review criteria and it appears that he continued to have access to his Executive STI award which, in his case, was strongly weighted in favour of the fertiliser Business' EBIT. ASA does not see that a specific reward should apply to the ongoing business even given the review (leadership is part of his ongoing job) and the reasons given for abandoning the review (primarily relating to the pandemic and its impact on travel and communication) were outside his control, so not providing a credible measure of its success. On this basis, ASA will vote against the remuneration report.

<b>Item 5</b>	<b>Approval of LTI grant to CEO/Managing Director Jeanne Johns</b>
<b>ASA Vote</b>	<b>For</b>

### **Summary of ASA Position**

The basis of the Entitlement calculation for 2020/23 period is as changed in 2019, being the Volume Weighted Average Price (VWAP) of company shares in the 5 business days following release of the previous year's results. This mean that the actual VWAP used to calculate Rights may not be included in the Notice of Meeting.

The Performance Conditions are TSR (40%), Return on Invested Capital (ROIC, 40%) and a new Long Term Value Metrics (LTVM, 20%) as set out in the Notice of Meeting. The new LTVM is set each year based upon the company's key strategic priorities and will be assessed at the end of the period against a balanced scorecard comprising specific performance goals and measurement criteria. In 2020/23 focus will be on manufacturing excellence and customer practical technology and innovation.

The Grant meets ASA guidelines (except for the 3 year period) and the new performance condition has the objective of improving performance by focusing on the most critical issues. On this basis, it is appropriate to support the Grant.

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