



### Should be attending to the details

<b>Company/ASX Code</b>	<b>United Malt Group / UMG</b>
<b>AGM date</b>	<b>10 February 2023</b>
<b>Time and location</b>	10am. The Museum of Sydney. Corner of Bridge and Philip Streets, Sydney
<b>Registry</b>	Link Market Services
<b>Type of meeting</b>	Hybrid
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Elizabeth Fish assisted by Helen Manning
<b>Pre AGM Meeting?</b>	Yes with Graham Bradley (Chairman) and Renee Jacob (Investor Relations)

Monitor Shareholding: The individuals involved in the preparation of this voting intention have a shareholding in this company.

### Summary of issues for meeting

Apart from the dismal trading result the most important matter was the impact on the company of the changes to the banking covenants originally advised to shareholders in the ASX announcement of 7 September 2022. As outlined in the Annual Report under the basis of preparation of the financial accounts and emphasised in the audit report, UMG must implement a number of actions to meet covenant compliance obligations across the next twelve months. The auditor, PwC, states “the Group's ability to continue as a going concern is dependent on the Group being successful in undertaking these actions. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern.” See pages 78 and 102 of the FY22 Annual Report. The Directors state, at p79, they “firmly believe that the Group will be successful in implementing the actions necessary to meet its covenant obligations and have therefore prepared these financial statements on a going concern basis.”

### Proposed Voting Summary

No.	Resolution description	
2	Adoption of Remuneration Report	For
3a	Election of Patrick Bowe as non-Executive Director	Undecided
3b	Election of Christine Feldmanis as non-executive Director	Undecided

### Consideration of accounts and reports - No vote required

In discussing the Independent Auditor’s FY22 Report, and with regard to the group’s ability to continue as a going concern, the Chairman said he considered the stance taken was too harsh. He

said that he didn't expect a capital raising was required. He continued saying UMG should be on target to have the stated cover or gearing ratio of 2.5 by September 2023. The covenant amendments were announced September 2022.

### **Financial performance**

Statutory Net profit at \$11.6m was down 20% on the FY21 result. Revenue increased by 14%, but mainly as the result of increased malted barley prices. The barley crop in Canada and the USA was significantly down in terms of quantity and quality. In addition, there were increased logistical costs involved in the importation of grain from Australia and Denmark and surcharges on US and Canadian rail freight costs. It would appear that the majority of the increased costs were not passed on to customers in a timely manner.

At the pre-AGM meeting, we asked why this was the case given the CEO and non-executive directors (NEDs) are not new to the business. The Chairman said that the business had been relatively stable for decades and the management team and NEDs were unprepared for the combination of circumstances taking place in FY22 and he believes there was risk management complacency. He said new commercial terms and management processes have been put in place to allow responses to be faster and to take account of changing circumstances. We asked how customers were responding to the change in pricing and when it will be seen to be effective and were told the new supply contracts started 1 January 2023 and the figures should start to show in May when results are given to the markets.

On the question of the size of increase in energy and grain costs, the Chairman said they don't disclose those. It seems the solution is to pass the costs on and to hedge. He did say Australian energy costs have risen most, some of the Europe and UK prices have come down recently.

The Board declared a 1.5 cent per share dividend in May 2022, for first half earnings. No final dividend was declared for FY22.

We also asked about the \$90m factoring arrangement the group have entered into and were told it was not unusual for companies to factor their debtors to bring cash flow forward. We did not get a response when we asked for the size of discount being given/charged.

ASA noted from the aging of trade receivables there is a significant increase in the amounts showing as past due, 90 days from \$2.4m to \$11m and > than 90 days \$21m to \$25m. The allowance for doubtful debts has increased by \$900,000 in the year.

In regard to outstanding debts, we asked if UMG had recovered the \$4.7m from the UK grain storage contractor highlighted in the ASA 2021 Voting Intention report and were told it had not. Nor was there any news on recovery of the \$16.4m written off due to the default by the Asian customer. We asked what the general credit terms are, 30 or 60 days and were told it depended on the segment involved. Warehousing and distribution is usually 30 days or less, while processing can be up to 90 days. As sales were \$1,407m and \$1,235m in FY22 and FY21 respectively, the outstanding is 64 days sales in FY22 and 60 days sales in FY21.

While Australian and Danish barley was imported into north America, the Chairman took the opportunity to let us know that all barley utilised in the Scottish facilities had been grown in Scotland so distilleries remained true to their tradition.

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

There were significant key personnel changes in this reporting season. The chief financial officer Ms Amy Spanik ceased to be employed on 6 July 2022 and was replaced by Mr Ryan Dutcher. On 6 October 2022, the managing director and chief executive officer Mr Mark Palmquist announced his intention to retire from the role. Prior to the demerger with GrainCorp Mr Palmquist had given the Board a commitment to stay in the CEO role for three years. He remains in the role until an orderly transition can occur with the new appointee. A search is currently under way to fill this position.

Two non-executive directors Ms Barbara Gibson and Ms Jane McAloon have stepped down from the Board. Three new non-executive directors have been appointed. Mr Patrick Bowe was appointed to the board on 1 September 2022. Ms Christine Feldmanis joined the board on 1 January 2023 and Ms Mary Clark will join the board on 1 March 2023.

### **Summary**

(As at FYE)	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
NPAT (\$m)	11.6	14.5	45.6	56.9
UPAT (\$m)	11.6	34.7	N/a	N/a
Share price (\$)	3.13	4.10	4.12	N/a
Dividend (cents)	1.5	5.5	4.08	N/a
Simple TSR (%)	.129	.85	N/a	N/a
EPS (cents)	3.9	4.6	16.8	22.4
CEO total remuneration, actual (\$m)	1.5	1.47	1.63	1.8

### **Adoption of Remuneration Report**

The remuneration report is clear and easy to understand. For FY22 the remuneration at risk component consists of STI, measured over 1 year and an LTI grant with a three-year performance period. As a rule, STI is paid 50% cash and 50% deferred performance rights (PR). The deferred PR vest 50% at 12 and 24 months. PRs are allocated using VWAP.

Measured against the scorecard shown on p45 of the AR, STI includes a financial measure (EBIT) weighted at 30%, Process improvement and performance at 5%, a customer and performance measure of 5% includes the development of a customer action plan with the final 10% being based on people and safety. An additional 50% is applied against agreed objectives tailored to the individual KMP's role. The minimum performance for both EBIT and people and safety was not

reached, threshold was achieved for process improvement & performance. While only two of four KMP's achieved target performance for their individual performance. The CEO achieved only threshold for his performance. The Board determined that due to the disappointing financial results no STI would be paid in FY22. The FY22 EBIT target was not disclosed.

For the LTI payments, KMP are assessed on three performance hurdles: Absolute Total Shareholder Return (aTSR) at 25%, the increase in share price over a 12-month period plus dividends paid, compounded over three years. At 50% Return on Capital Employed (ROCE), EBIT/Capital employed and in FY21 an additional and third measure at 25% termed "Strategic Measures". Vesting is to be assessed against realisation of the pre-determined metrics in three elements: Profitability and customer performance, repositioning of the operating model of UMG, and establishing and executing strategic growth opportunities. ASA notes the metrics these elements are measured against will only be released at the completion of the three-year performance period, which commenced October 2020 and ends September 2023.

For aTSR, 25% of rights vest at minimum of target range, then move on a straight line until 100% at maximum. The FY 22 threshold was 6% and target was 9%. The ROCE target is set by the Board as part of the budgeting process each year. The FY22 ROCE target was 8.6% to 11.4%. 25% of rights vest at the threshold of 8.6%, then on a straight-line basis until target is reached. In addition, there is an ongoing service condition. No LTIs vested in FY22 as ROCE was 4.8% against a threshold of 8.6% and ATSR was -8.8% against threshold of 6%.

In FY20 an additional one-off award was granted to both the CEO and President, Processing to encourage retention and compensate for the fact that no LTI awards would be due to vest until 2022. Under this one-off award 280,543 rights were issued to the CEO and 57,223 to President, Processing. These rights were due to vest in September 2021 and the terms and conditions are as for the FY20 LTI. These rights did not vest as performance hurdles for ROCE and ATSR did not reach the required threshold for vesting.

ASA will recommend a vote in favour of this resolution. While ASA takes the view that a three-year LTI period is too short to be truly judged as long term for a business in this category, we accept that the recent demerger does make an extended period impossible to measure and we accept the Chairman's previous undertaking that the period will be reviewed in FY24. We note that the STI performance measures are aligned with shareholders interest and look to be rigorously applied given the KMP including Mr Palmquist did not receive any STI in FY22 and that Mr Palmquist in resigning from the company has forfeited any outstanding performance rights.

## **Election or re-election of directors**

With the demerger of United Malt from Graincorp the board came into being in January 2020. The current board comprises one executive director and 6 non-executive directors. It is therefore significant to note that two NEDs will be departing and another three are, or will be, recent appointments. ASA encourages diversity in board members and likes to see 30% women. This board has 2 females which is about 30%. Three of the NED's are based in North America and three in Australia and with the recent board changes these ratios will remain. United Malt doesn't publish a boards skill matrix so there is no easy way to see where aggregate skills and deficits lie in the board. We would encourage them to publish a matrix. We can see that with the appointment of such a qualified risk management person such as Christine Feldmanis we hope that the risk management problems we have been reporting on since last year will be addressed. She has already been appointed as the Chair of the Audit and Risk Committee and replaces Mr Terry Williamson who has had absences due to medical leave. With the appointment of Mr Bowe, we see someone with deep north American business experience, and so hope that this will translate well. With our pre-AGM meeting we were told that the appointment of Mary Clark in March will bring her knowledge of supply chains. This knowledge encompasses all aspects - for example the risks of slavery issues in procurement were mentioned at our pre-AGM meeting. Mary Clark was described as coming from the food ingredient business (flavours and scents).

### **3a. Re-election of Mr Patrick E. Bowe as a Director**

Mr Bowe was appointed to the board in September 2022. He holds BAartsSc (political) from Stanford University and MA Economics from Stanford Food Research Institute. His extensive experience is laid out in the notice of meeting. He is described as having over 40 years agribusiness experience in executive leadership roles and is currently president and chief executive officer of The Andersons Inc, a company listed on the NASDAQ:(ANDE). He is a director of Primient, a global food and industrial ingredients distributor that demerged in February 2022 from Tate and Lyle Ingredients Americas LLC. It is a privately owned company. In addition, he is also a director and treasurer of the Toledo Museum of Art in Ohio.

The Board considers Mr Bowe to be a valuable addition to the Board in light of the particular skills, knowledge and experience he brings from his extensive international experience in agribusiness and business operations directly relevant to the Company's malting and distribution businesses in North America.

In our pre-AGM meeting with United Malt, we expressed concern that he will not have sufficient time to devote to the board due to his executive CEO role with The Andersons Inc, and his directorship of Primient. Graham Bradley assured us that Mr Bowe has already been very generous with his time on various matters and wants it known that the Board feels comfortable with this.

We look forward to hearing from Mr Bowe at the meeting and hope that he will address his workload at the same time. We believe he will join the meeting remotely due to the difficulties and expense of organising travel at this time. ASA will determine its vote for undirected proxies after hearing from Mr Bowe, ASA will remain undecided as to how we will vote undirected proxies.

### **3b. Election of Ms Christine Feldmanis as a Director**

Ms Feldmanis was appointed to the board on 1 January 2023. She holds a Bachelor of Economics from the University of Wollongong and a Masters of Applied Finance from Macquarie University. Her extensive experience is laid out in the notice of meeting (NOM). The NOM fails to mention that Ms Feldmanis is also Chairs Bell Asset Management, an unlisted entity. ASA counts chair roles as 2 board positions. In conjunction with the 4 NED positions mentioned in the NOM and her position at UMG that counts for 7 positions on a preferred ASA guideline recommendation of a limit of 5. We would like to Ms Feldmanis to talk about her workload in her address to the AGM as it is important that directors have sufficient time to address problems in a business should a crisis occur. We note that 3 of her NED's show her as Chair of Audit and Risk (Rabobank, Omni and Utilities) and that she has already been appointed as Chair of the Audit and Risk Committee at United Malt. The previous chair of this committee has recently been absent due to medical leave.

The Board considers Christine to be a valuable addition to the Board in light of the particular skills, knowledge and experience she brings to the Board. The Board considers that Christine's extensive experience in business operations, investment management, finance, accounting and risk management, legal and regulatory compliance, governance and will further strengthen the Board and complement the expertise of existing directors. Other than our concerns relating to workload, we concur.

Until we hear from Ms Feldmanis, ASA will remain undecided as to how we will vote undirected proxies.

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## Appendix 1 Remuneration framework detail

CEO rem. Framework for FY22	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1,271.6	33.3	1,271.6	33.3
STI - Cash	635.8	16.7	635.8	16.7
STI - Equity	635.8	16.7	635.8	16.7
LTI	1,271.6	33.3	1,271.6	33.3
Total	3,814.6	100	3,814.8	100

The amounts in the table above are the 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.