UNITED MALT

18 February 2021

The Manager, Companies
ASX Market Announcements

ASX Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam,

2021 Annual General Meeting – Managing Director and CEO's Address

Please see attached the address to be delivered by the Managing Director and CEO, Mr. Mark Palmquist, to Shareholders at this morning's virtual Annual General Meeting.

This announcement is authorised for market release by the board of directors of United Malt Group Limited.

Yours sincerely,

Lisa Jones
Company Secretary

UNITED MALT GROUP 2021 ANNUAL GENERAL MEETING: MANAGING DIRECTOR & CEO'S ADDRESS

Thank you, Graham, and good morning everyone, I appreciate you joining us today at our first AGM. It's been an extraordinary year for our business, our industry and many of the markets in which we operate. At the same time, as establishing United Malt as its own separate publicly listed company on the 23 March, the COVID-19 pandemic first began to impact the globe.

The pandemic has tested the resilience of our business model, our people, and our ability to respond to challenges, while maintaining a clear focus on our key priorities – keeping our employees safe, servicing our customers and creating shareholder value.

I'd like to thank our staff for their efforts in responding to this dual challenge of managing the impact of the COVID-19 pandemic whilst establishing our business as a separately listed company and putting in place all the policies, procedures and separation activities that have been completed during the course of 2020.

Safety remains paramount

Our focus on safety remains paramount. We responded quickly in adjusting our ways of working to ensure our safety practices were fit for purpose. Social distancing protocols, split shifts and enhanced hygiene measures were implemented across our processing and warehouse operations, while we transitioned our office-based teams to working-from-home arrangements. Our efforts have allowed us to continue to provide uninterrupted service to our customers and ensure a safe working environment for our employees, suppliers, and customers. Once again, let me acknowledge the efforts of our people right across our network for stepping up and meeting these challenges during the year.

During FY20 we made continued progress in implementing our safety strategy, which is focused on site leadership and behavioural aspects of safety, as well as identifying, and mitigating physical risks on site. The Recordable Injury Frequency Rate for FY20 was 1.45, an improvement from 1.54 in the prior year.

Operating as a sustainable business

We recognise that conducting our business in a sustainable and responsible way is vital for us to earn and maintain the ongoing respect of our stakeholders; including our people, customers, supply partners, shareholders, and the communities in which we operate.

We are very pleased to have been able to publish our inaugural sustainability report in 2020. I would encourage shareholders to review our report, which you can find on our website.

We continue to work with internal and external stakeholders to identify and further develop our strategy to address key sustainability risks and opportunities.

We understand that we have to play our part in reducing our environmental impact in our operations. Energy is one of our key inputs, and we will look to reduce our emissions. We're also a large user of water, so we're looking for opportunities to reduce our water consumption across our operations.

Another part of our sustainability focus is promoting a diverse and inclusive workplace. We have a strong culture which is supported by our policies, and we have found that having a diverse and inclusive workforce assists our decision making.

FY20 financial performance

Our financial performance for 2020 was impacted in the second half of the year by the COVID-19 pandemic. Government imposed containment restrictions adversely affected on-premise alcohol consumption, particularly for our smaller craft beer customers. While off-premise consumption increased, this was not sufficient to offset the decline in on-premise consumption.

We took steps to mitigate the impact of lower demand, with the implementation of one-off cost savings initiatives in the 2H20. Direct cost savings of $5.9 million were realised from areas including a 20 per cent base fee reduction for the Non-Executive directors from May to September, the executive team and many employees reducing their base pay by 20 per cent for five months by taking the equivalent in leave or a salary reduction. We also reduced costs in marketing, training, and non-essential spending areas. A further $4.4 million in government wage support schemes was accessed in Canada, the UK and New Zealand which enabled us to maintain staff who would otherwise have been furloughed. No government wage assistance was received in Australia or in the US.

The impact on volume caused a decline in Group revenue of 2 per cent to $1.3 billion. Underlying EBITDA was $156.1 million (including the impact of the new lease accounting standard AASB 16); down 11 per cent on the prior year.

Notwithstanding the decline in EBITDA, we remained operating cash flow positive for the year. The Group successfully completed a $170.6 million equity raising in May 2020 which comprised an institutional placement ($140m) and a Share Purchase Plan ($30.6m).

I would like to acknowledge shareholders' support of this capital raising.
As Graham mentioned a dividend of 3.9 cents per share was paid representing a pay-out ratio of 40 per cent of after-tax profit for the second half of FY20.

United Malt remains in a strong financial position to manage in the current environment and to continue our investment in strategic initiatives.

Strategy

We are continuing to implement our strategic objectives, while also ensuring we are well positioned to manage the continued near-term volatility caused by the COVID-19 pandemic.

Our strategy is focused across a number of key priorities; allowing us to remain agile, keep our customers at the centre of everything we do, whilst targeting those markets where the longer-term outlook for growth remains supportive.

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Firstly, we are committed to being the supplier of choice for our customers by delivering on our customer experience and value by providing exceptional service and simpler processes.

Secondly, we are investing in United Malt's digital capabilities. We see data and insights as a core source of value and competitive strength. We continue to enhance our capabilities with digital insights in the warehouse and distribution business, allowing us to be more predictive with how we approach and service our customers. We have successfully delivered a new Customer Relationship and a Transport Management system.

Arbroath FACILITY

Thirdly, we continue to invest in our assets to create best in class operations as we seek to improve our portfolio of assets, our product quality, our environmental footprint, and profitability. Our expansion in Scotland, which is focused on the distilling market, continues to progress, with the Arbroath facility successfully coming online earlier this month, with the addition of 22,000 metric tonnes of production.

As part of the completion of Arbroath, we announced the intended closure of our Grantham facility in England, thereby removing older and less efficient capacity from our portfolio of assets. Production will be consolidated into our Witham facility in England and the Arbroath facility in Scotland, providing greater asset utilisation, lower production costs per tonne, while ensuring uninterrupted supply to our customers.

We are progressing the Inverness expansion, amidst continued disruption from COVID-19 restrictions in Scotland. The facility will add 57,000 metrics tonnes of capacity. Due to increased social distancing requirements on site, we now expect that completion of the expansion project will be delayed to May 2022 from the original schedule of end of calendar 2021.

This Scottish expansion remains a key customer-led strategic priority as we capture the growth from the increasing demand for Scottish malt, as our Scottish distillers' customers seek to capture the growth markets for aged single malt Scottish whisky.

Meanwhile in Australia, we announced a $27 million replacement of our Perth Kiln, providing safety and efficiency benefits and the opportunity to expand capacity, with further capital investment.

We have expanded our partnership with our Mexican distribution partner to further grow United Malt's penetration into region. The new agreement will expand our distribution footprint, providing further access to the growing craft market in Mexico, enhanced our customer experience, and provide more efficient logistics.

Finally, we are working towards transforming our business and renewing our organisation and technology platforms to create a simplified, more efficient and effective organisation. We are currently progressing the initial stages of this project and expect to be able to provide more clarity on the benefits we expect to drive from this initiative at the half year results in May.

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We are confident that our strategic focus will deliver benefits to shareholders over the longer term.

FY21 Outlook

Now turning to the 2021 outlook. In line with comments made at the FY20 results announcement, United Malt remains well positioned to manage through the continued market uncertainty caused by the impact of COVID-19 which is expected to remain throughout FY21.

While signs of recovery have emerged in some markets, the impact of COVID-19 and the second and third waves that are currently being experienced in our core markets including the US, Canada and the UK, continue to disrupt our demand, our supply chains and our operations. This includes the current stringent lock downs in the UK and continuing increased case numbers and varied restrictions in the US and Canada.

Volumes continue to be impacted by COVID-19 restrictions in core markets, with continued reductions in on-premise consumption, shifting malt product demand and driving a lower margin outcome. Social distancing hygiene priorities are continuing to drive elevated operating costs.

Additionally, containerised exports globally have been significantly disrupted by the pandemic, causing delays in our customer shipments. To deal with these delays, we have periodically paused production at selected plants to mitigate the shortfall of containers and vessel availability.

The appreciation in the Australian dollar compared to the prior corresponding period (moving from an average rate of 67 cents in the 1H of FY20 to the US dollar to an average rate of 75 cents year to date in the 1H21) will impact the translation of our earnings into Australian dollars. We expect this to have a negative impact of approximately $6m in the 1H21.

As previously advised, corporate costs are expected to be $12 million for FY21 representing full year stand-alone company corporate costs post the demerger from GrainCorp and reflecting the significant increase in insurance costs.

As part of our program to accelerate the creation of a simplified and more efficient organisation, we will incur an additional $5 million of expense in the first half of FY21, supporting the development of projects that underpin this transformation. This cost is fully contained within the first half and we expect future implementation costs to be offset by benefits delivered in the 2H21 and beyond. We will provide further details on the benefits this will deliver at the first half results.

As announced earlier this month, our Grantham facility in England will close in March 2021 and production from this site will be consolidated into our Witham and Arbroath facilities. This will provide greater asset utilisation and lower production costs per tonne, while ensuring uninterrupted supply to customers. We expect to incur a non-cash impairment of $2 million, together with site redundancy costs of approximately $1 million in 1H21.

We continue to expect COVID-19 conditions to remain throughout FY21and for the 1H21 expect EBITDA to be within the range of $47 - $50 million on a post AASB-16 basis (which includes the impact of Grantham closure costs, foreign exchange impact and business transformation costs as just outlined).

While conditions remain uncertain for the 2H21, we remain cautiously optimistic for a recovery in malt demand. Typical we see stronger trading conditions in the second half as we move into the northern hemisphere summer, with a pre COVID-19 seasonal earnings split of 40% first half and 60% second half. In addition, we look to the roll out of vaccines in our key markets and our customers being more resilient in how they access the end consumer.

Our strong market position, strategically located malting assets, and our market leading distribution platform positions us to return to growth, once conditions stabilise.

Conclusion

Let me conclude by once again thanking shareholders for your support of the Company.

We remain well placed to manage through the current environment with a strong focus on our strategy to deliver value creation to shareholders over the medium term.

I will now hand back to Graham.