UNITED MALT

1 September 2021

ASX Announcement

FY21 trading update and earnings guidance

- **Improving performance in North America and the UK; continuing to address COVID-19 disruptions affecting malt volumes in Asia/Australia**
- **FY21 Underlying EBITDA[1] expected to be ~$129-134m; the impact of IFRIC accounting change for SaaS costs expected to be ~$6m**
- **Significant Items[2] in FY21 expected to be ~$20-22m related to inventory held at grain storage contractor in administration the in UK and provision for bad debt related to the impact of COVID-19 on one Asian customer**
- **FY21 EBITDA[3] (including Significant Items) expected to be ~$103-108m**
- **FY21 Underlying NPAT[4] (excluding Significant Items) expected to be ~$36-41m**

United Malt Group Limited (ASX: UMG or the Company) today provides a trading update and earnings guidance for the year ending 30 September 2021 ("FY21").

Consistent with the commentary made in the 1H21 results announcement[5], United Malt remains well positioned to manage through the continued disruption caused by COVID-19.

Resilient business capitalising on venue reopening in North America and UK

The current high vaccination rates in the US and UK and northern hemisphere summer weather have supported improved activity in the 2H compared to 2H last year.

In North America the Company continues to be well placed to leverage reopening of venues for increased on-premise beer consumption. As demand for craft beer continues to improve, sales mix improvement from an increase in demand for specialty malts is assisting to drive improved margins in the Warehouse & Distribution business.

In the UK demand for malt for the distilling market remains steady consistent with distilling customers increasingly laying down spirits for aged whisky. The Grantham facility has been closed with additional volume coming online from the Arbroath and Witham facilities. The Company's new facility in Inverness will provide much needed additional malt capacity to the distilling market. A significant proportion of the new capacity has been underpinned by expanded contracts with customers. Inverness is expected to be operational by July 2022, slightly behind schedule due to ongoing social distancing requirements.

United Malt expects malt volumes for the full year to reach ~95% of pre COVID-19 levels.

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[1] Underlying EBITDA is earnings before interest, tax, depreciation and amortisation and before the impact of SaaS and Significant Items.
[2] Significant Items are not in the ordinary course of business and one-off and material in nature and amount.
[3] EBITDA is earnings before interest, tax, depreciation and amortisation and including the impact of SaaS and Significant Items.
[4] Underlying NPAT is net profit after tax including the impact of SaaS and excluding the impact of Significant Items.
[5] Lodged with ASX on 19 May 2021

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Recent lock-down extensions and stringent restrictions affecting consumption in Asia and Australia

United Malt's Asian export customers have been negatively affected by more stringent COVID-19 restrictions, including strict stay at home orders and curfews, which have reduced volume supplied from Australia and Canada. This has been further compounded by continuing ocean freight disruption and freight cost increases across the shipping market.

In Australia, the extended COVID-19 lockdowns have affected on-premise demand, together with lower export volumes to key Asian markets impacted by COVID-19. The Company continues to manage this disruption and align production with demand through some curtailment of capacity in Australia.

Underlying EBITDA

The Company expects Underlying EBITDA to be in the range of $129 – 134 million for FY21. This includes the negative impact of ~$11 million related to the ~11 per cent appreciation in the Australian dollar compared to the US dollar for the prior year affecting the translation of earnings into Australian dollars.

IFRIC accounting pronouncement

United Malt advises that it will be required to adopt the new IFRIC accounting pronouncement regarding costs associated with Software as a Service (SaaS).

This new accounting pronouncement which recently came into effect results in costs which would have been capitalised in FY21 now being expensed. The result of this accounting change will decrease FY21 EBITDA by ~$6 million. This primarily relates to the new Enterprise Resource Planning (ERP) and Transport Management Systems that are still in development and have not commenced amortisation.

The implementation of our new systems is part of our transformation initiative. Total expense on the systems is expected to be ~$20m; over three years with ~$6 million of the expense incurred in FY21; ~$10m in FY22 and ~$4 million in FY23. This will be expensed in future periods as part of the change in accounting treatment.

With the inclusion of this additional expense, the Company expects FY21 Underlying EBITDA (including SaaS) to be in the range of $123 – 128 million.

Significant Items impacting reported FY21 result

United Malt advises that two significant one-off items will impact the Company's statutory earnings for FY21: one relating to a UK grain storage contractor who has entered administration and the other relating to a bad debt provision from one Asian customer.

Provision regarding UK contractor in administration

As advised in the interim results released on 19 May 2021, Alexander Inglis & Son, one of the Company's long standing grain storage contractors, used for seasonal storage of grain, entered administration on 12 May 2021. At that time United Malt did not have access to the contractor's facility to determine if any potential inventory deficiency existed.

The stock assessment report from the administrator has since concluded that stock in the possession of Alexander Inglis & Son at each of its trading premises is lower than expected, and significantly less than the claims on the stock received by the administrators from third parties, which include United Malt.

United Malt is actively pursuing all legal and commercial avenues. At this time however, the Company estimates a provision of ~GBP2 – 3 million (~A$4 – 6 million) with an updated provision to be reported in the Company's year-end accounts.

Provision for bad debt regarding Asian customer impacted by COVID-19

As mentioned earlier, COVID-19 outbreaks and the spread of the Delta variant across Asia are causing trading difficulties for customers with increased restrictions and lockdowns. Restrictions have negatively impacted the on-premise and off-premise consumption of beer in the region.

In addition, typical customer replenishment cycles have slowed due to COVID-19 and exacerbated by the rising cost of container freight shipping to the region. United Malt does not expect a recovery in export sales to the region until freight disruptions fully dissipate and COVID-19 restrictions normalise through higher vaccinations rates across the region.

The Company currently expects to incur a one-off significant item provision for a potential bad debt due to the COVID-19 impact on one long standing Asian customer of approximately $16 million with an updated provision to be reported in the Company's year-end accounts.

Although discussions remain ongoing with this customer regarding potential receivable recovery, United Malt currently expects to record a bad debt provision in its FY21 accounts.

As a result of these one-off Significant Items, United Malt expects to report EBITDA (including SaaS) in the range of $103 – 108 million for FY21.

Statutory NPAT is expected to be in the range of $15 – 18 million for FY21.

	Underlying $m	Statutory $m
Significant Items		~20-22
EBITDA (before SaaS)	~129-134	~109-114
Impact of SaaS	~6	~6
EBITDA (including SaaS)	~123-128	~103-108
EBIT	~62-67	~42-45
NPAT	~36-41	~15-18

United Malt's dividend policy is to pay approximately 60% of Underlying NPAT[6] as dividends. The Company does not expect a change in this policy.

United Malt further advises that its banking covenants are based on Underlying EBITDA (before Significant Items) and anticipates its gearing ratio to be in the target range of 2.0-2.5 times for FY21.

Management commentary

Managing Director & CEO Mark Palmquist, said: "The United Malt team has worked hard to manage our operations in response to the varied challenges of COVID-19 and we have been able to respond and adapt flexibly to changing customer needs. Whilst we are disappointed to announce these one-off Significant Items, we remain well placed to return to growth once conditions stabilise, supported by our strong market positions, strategically located malting assets and our market leading distribution platform which services customers' ingredient requirements.

"In North America, current high vaccination rates and the northern hemisphere summer weather have supported improved activity in the 2H21. Demand for malt is rebounding with the reopening of venues and greater activity in the Warehouse & Distribution segment which services the craft market. We are seeing consistent ordering and improvements in the sales mix, with greater demand for specialty malts. The Warehouse & Distribution segment is also benefiting from our optimisation program driving lower costs.

[6] Underlying NPAT is Net profit after tax including the impact of SaaS and before the impact of Significant Items

"In the UK we continue to focus on servicing the Scottish Whisky market which requires malt to meet the long-term requirements of distillers to produce aged Whisky. The additional 22,000 tonnes of production capacity at Arbroath operational and performing to our expectations. Our new facility in Inverness will provide additional malt capacity to the distilling market with volume coming online in July 2022.

"Performance in Australia is being negatively affected by recent COVID-19 restrictions, including the extended lockdowns in NSW and Victoria, with subdued domestic demand in both our Processing and Warehouse & Distribution segments.

"In addition to the continued impact of global freight delays and higher freight costs, COVID-19 conditions in Asia are causing a reduction in malt sales to the Asian export market from both our Australian and Canadian operations. We do not expect a recovery in export sales to the region until freight disruptions fully dissipate and COVID-19 restrictions normalise through higher vaccinations rates in the region.

"While crop conditions in North America have deteriorated due to the drought conditions which have impacted barley crop size and quality and have also elevated barley prices globally, we remain well placed to meet these challenges. We source barley from multiple growing regions and our production facilities are located close to transport infrastructure.

"As we have done in prior difficult seasons, we are able to source barley from other geographic regions and this year we are proactively sourcing foreign barley to supplement our locally sourced barley requirements to meet our customers' demand. The majority of our contracts with customers reflect the ongoing change in barley prices.

"We continue to implement our strategy to strengthen the business to capitalise on growth opportunities and sustainability priorities over the medium term. Our transformation initiative is underway, and we are committed to delivering ~$30 million of net benefits in EBITDA by FY24," Mr Palmquist said.

Conference Call Thursday 2 September 9am (AEST)

United Malt will host an analyst and shareholder conference call commencing at 9am (AEST) on Thursday 2 September 2021. Please pre-register for the conference call at the link below:

https://s1.c-conf.com/diamondpass/100163731-al2md4.html

After registering you will be provided with the dial in number, the passcode, and your unique access pin.

Additional information

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This announcement was authorised for release to ASX by the Board of Directors.

About United Malt Group

United Malt is the fourth largest commercial maltster globally, with approximately 1.25Mtpa of capacity across 12 processing plants in Canada, United States of America, Australia and the United Kingdom. We also operate an international distribution business, which provides a full service offering for craft brewers and distillers, including malt, hops, yeast, adjuncts and related products.