17 November 2021

ASX Announcement

FY21 Full Year Results Release

- **Improved 2H performance in North America/UK from markets re-opening and solid performance in Warehouse & Distribution provides positive momentum into FY22**
- **Revenue down 4% to $1.2b, in line with prior year revenue on constant currency basis**
- **EBITDA in line with guidance[1], down 21% to $123.3m; includes SaaS costs of $6.5m, one-off costs of $7.4m and negative FX effect on translation of earnings of $9.1m**
- **Underlying EBITDA excluding SaaS and one-off items was $137.2m[◊] down 11% on the prior year and on a constant currency basis down 6%**
- **Final dividend of 3.5 cents per share (unfranked) payable on 17 December; Full year dividend of 5.5 cents per share**
- **Financial position remains strong – gearing ratio 2.1 times; within target range 2.0 - 2.5 times**
- **Transformation program on track; targeting ~$30m annualised net benefits by FY24**

United Malt Group Limited (ASX: UMG or the Company) today announced its financial results for the year ended 30 September 2021 (FY21).

Group Results

The Company's FY21 results were impacted by COVID-19, including extended lockdowns which reduced on-premise consumption of beer and disruption to supply chains in our key markets.

High vaccination rates in North America and the UK amidst the northern hemisphere summer weather supported increased activity in the second half of the year compared to the prior corresponding half. Stringent COVID-19 restrictions, including strict stay at home orders and curfews, reduced volume supplied from Australian and Canadian operations to Asian customers in the second half.

Group revenue declined by 4 per cent to $1,235 million, in line with prior year revenue on a constant currency basis.

[1] EBITDA is a non-IFRS measure representing earnings before net interest, tax, depreciation and amortisation, and excluding significant items. FY21 EBITDA guidance provided on 1 September was ~$123-128m; and included the impact of IFRIC accounting change for SaaS costs expected to be ~$6m.

[◊] Underlying EBITDA excluding one off items. One off items in FY21 include Grantham site closure costs ($3.1m), transformation costs ($4.3m) and SaaS costs ($6.5m). FY20 one off items include government wage support $4.4m and hops write off ($2.8m).

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EBITDA was $123.3 million, down 21 per cent on the prior year and consistent with the guidance provided in the trading update of 1 September 2021.

EBITDA included $3.1 million in one-off costs associated with the Grantham site closure, transformation costs of $4.3 million and $9.1 million FX translation related to the ~10 per cent appreciation of the Australian dollar compared to the US dollar for the prior year.

As announced on 1 September, EBITDA also includes the requirement to adopt the new IFRIC accounting pronouncement (SaaS) which required expensing costs of our new Enterprise Resource Planning (ERP) and Transport Management systems, previously capitalised. This accounting change decreased FY21 EBITDA by $6.5 million.

Underlying EBITDA excluding one-off items was $137.2 million, down 11 per cent on the prior year and on a constant currency basis down 6 per cent.

As disclosed previously, the FY21 result also included Significant Items, namely a provision for stock loss of $4.7 million related to a UK grain storage contractor which entered administration in May 2021 and a $16.4 million bad debt provision from one Asian customer. United Malt is actively pursuing all legal and commercial avenues on both of these items.

Underlying Net Profit After Tax was $34.0 million compared to $57.4 million for FY20. With the inclusion of Significant Items, Statutory Net Profit After Tax (NPAT) was $13.8 million compared to $45.6 million for FY20.

Earnings per share were 4.6 cents compared to 16.8 cents in the prior year.

$m	FY21	FY20
EBITDA	**123.3**	**156.1**
SaaS Costs	*6.5*	--
Grantham Closure	*3.1*	--
Transformation Costs	*4.3*	--
Hops Write off	--	*2.8*
2H20 Govt wage support[2]		*(4.4)*
Total one-offs included in EBITDA	13.9	(1.6)
Underlying EBITDA (excl one-off items and SaaS)	**137.2**	**154.5**

Financial Position and Balance Sheet

Notwithstanding the challenging market conditions experienced during the year, United Malt remains in a strong financial position to manage in the current environment and to continue its investment in strategic growth initiatives. Net debt at 30 September 2021 was $312.4 million compared to $344.1 million at 31 March 2021.

The gearing ratio (net debt/ Underlying EBITDA[3]) was 2.1 times, which is within the Company's target ratio of 2.0 to 2.5 times.

[2] Received in Canada, the UK and New Zealand
[3] Based on a 12 month rolling EBITDA excluding the impact of AASB16, Significant Items and net debt excluding finance lease commitment. The impact of AASB16 on the 12 month rolling EBITDA is $14.9m

The Company maintains comfortable headroom within its banking covenants and has no significant near-term refinancing commitments.

Dividend

The Board resolved to pay a final dividend of 3.5 cents per share (unfranked), bringing the full year dividend to 5.5 cents per share. The record date for determining entitlements to the final dividend is 2 December 2021, with scheduled payment on 17 December 2021.

Segment Results

In the **Processing segment**, revenue fell by 5 per cent to $938.1 million reflecting volume declines compared to the prior year. Segment EBITDA declined by 29 per cent to $89.5 million as a result of COVID-19 restrictions in key markets which affected earnings and margins, and costs associated with implementing hygiene and social distancing measures to keep our workforce safe. In addition, higher costs were incurred from operating at reduced utilisation and continued delays with freight containers and higher freight costs attributable to supply chain disruptions.

Processing Segment EBITDA included one-off costs, including the Grantham site closure of $3.1 million, business transformation costs of $3.6 million and SaaS costs associated with the ERP and Transport Management Systems costs of $4.5 million.

Excluding one-off items, Underlying EBITDA in the Processing Segment declined by 18 per cent to $100.7 million.

The **Warehouse & Distribution segment** reported a significant improvement. Revenue was in line with prior year at $330.1 million and segment EBITDA increased by 18 per cent to $40.8 million. Improving volume and sales mix, particularly in the second half resulted in improved margins as craft brewers re-opened.

EBITDA margins benefited from the Company's optimisation program and freight initiatives driving lower costs which more than offset the impact of elevated container freight costs for imported products. The business also benefitted from a strong performance in the specialty ingredients category, reflecting growing demand for ancillary ingredients in craft beer, hard seltzer and food.

The Warehouse & Distribution segment EBITDA was impacted by one-off costs incurred during the period including business transformation costs of $0.7 million and SaaS costs of $2.0 million associated with the ERP and Transport Management Systems implementation.

Commentary on Results

Managing Director and CEO, Mark Palmquist said the Company has demonstrated its resilience during a challenging year and he was encouraged by signs of improvement in core markets in the second half of the year.

"COVID-19 lockdown restrictions affected both volume and mix across our markets during the year, as did the higher Australian dollar, freight disruptions and one-off costs reflected in our financial results.

"Our team responded and adapted to these challenges very well and ensured safe operations across our sites and continued supply of product to our customers.

"At the same time, we continued to implement our strategy to optimise and strengthen our business, and we have emerged from FY21 in a stronger and more competitive position to leverage the improving customer and market trends we are seeing across our core geographies as we enter FY22.

"During the second half of FY21 we saw continued recovery in on-premise consumption in North America with the re-opening of bars, restaurants and stadiums. We are expanding our processing capabilities in Canada with a new specialty ingredient processing plant which will support the growing demand for new products in craft beer, hard seltzer and food markets.

"In the UK, we remain focussed on servicing the Scottish whisky market which requires malt to meet the long-term requirements of distillers to produce aged whisky. The expansion at the Arbroath facility is now complete and has delivered an additional 22,000 tonnes of production capacity and is performing to our expectations.

"Meanwhile, the new facility in Inverness will provide an additional 57,000 tonnes of capacity to service the distilling market with a significant proportion of the new capacity underpinned by expanded contracts with customers. The site is expected to be operational by July/August 2022, slightly behind schedule due to ongoing social distancing requirements on site.

"The revised project costs for the two facilities are estimated at $127 million. Based on current forward orders secured and the outlook, the expected incremental EBITDA in FY23 is estimated to be ~$18 million, in line with expected project return rates.

"In Australia, our $27 million project to replace the existing kiln at our Welshpool facility in Perth with a new and indirect heating source kiln is progressing well. This renewal provides operating efficiencies and safer technology. The project is scheduled for commissioning in February 2022, slightly behind schedule due to the COVID-19 related travel restrictions to Western Australia.

"In Our Warehouse & Distribution segment, we opened a new 9,100sqm craft warehouse and distribution centre in Derrimut, Victoria. It provides an expanded range of ingredients and a 'one-stop-shop' experience for customers. In Mexico with our distribution partner Beermex, we now have three warehouses operational, further growing our product penetration in the craft market.

"During the year we announced our transformation program focused on renewing our organisation and technology platforms to create a simplified, more efficient and more effective organisation. This program is expected to deliver ~$30 million of net benefits in EBITDA by FY24.

"We commenced stage one of this program, incorporating a redesign of our organisational structure, including the appointment of a new Chief Operating Officer (COO), with responsibility for our amalgamated US and Canadian processing operations, and a new Vice President of Human Resources.

"We have also commenced the development of our new ERP and implementation of a Transport Management System to enhance our data analysis and process improvement. Total expense on these systems is expected to be ~$20 million over three years with $6.5 million incurred in FY21," he said.

FY22 Outlook

“The Company is well positioned to capitalise on improving trends and demand for malt across our major markets.

“We expect to see a continued recovery in on-premise consumption in the North American market, and craft breweries that have capability to package product are now more resilient to the effects of further lock downs as they expand into the off-premise channel.

“In the UK, distilling continues uninterrupted and remains focused on the long term laying down of spirits, while in Australia the more recent easing of restrictions and reopening of the on premise channel and summer months gives rise to an improving outlook for domestic demand for malt.

“In Asia there are early signs of restrictions easing in some geographies, with a recovery in malt demand expected in line with higher vaccination rates and easing of lockdown restrictions. However, we expect continued supply chain disruption, with container availability issues and higher shipping rates affecting customer replenishments and reordering.

“As we announced previously, barley crop conditions in North America have deteriorated due to drought conditions which have reduced the Canadian barley crop and have also increased barley prices globally.

“In response, we are supplementing local supply with imported malting barley from Denmark and Australia via bulk vessel. We anticipate a cost impact of $ 8-12 million in FY22 for additional supply chain costs from importing barley.

“In summary, we are encouraged by our larger markets starting to return to pre COVID-19 conditions. Improved performance in the second half of FY21 provides positive momentum into FY22.

“We expect volumes to approach FY19 levels post 1QFY22, with continued improvement in product mix. We remain focused on leveraging the improving market conditions whilst managing short term volatility in freight, barley crop and energy costs.

“Our strategic initiatives will deliver a more competitive platform for medium term growth, including our major capex projects which are nearing completion and will provide a step up in earnings. As market conditions start to normalise further, we remain well placed to leverage improved demand conditions to return to sustainable growth,” Mr Palmquist said.

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

Additional information

Conference Call Wednesday 17 November 10am (AEDT)

United Malt will host an analyst and shareholder webcast commencing at 10am (AEDT) on Wednesday 17 November. Access to the webcast is available via the below link.

United Malt FY21 Annual Results Briefing Link

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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.