26 April 2022

ASX Announcement

FY22 trading update and earnings guidance

United Malt Group Limited (ASX: UMG) today provided a trading update and guidance for expected earnings for the half year ended 31 March 2022 (“1H22”) and for the year ending 30 September 2022 (“FY22”).

1H22 and FY22 earnings guidance

United Malt expects Underlying EBITDA (before SaaS costs) for 1H22 to be ~$57 million[1] (subject to audit review).

FY22 Underlying EBITDA (before SaaS costs) is expected to be in the range of ~$115 -140 million[2].

The FY22 guidance includes ~$20 - 25 million of costs[3] resulting from the severe drought conditions in Canada of which $8 million has been incurred in the first half.

Canadian drought impact

As disclosed in the Company’s November FY21 results announcement, and at the Annual General Meeting in February 2022, the Canadian business has been impacted by the severe 2021 drought in Canada which caused a 35% reduction in the total barley crop from the prior year[4]. United Malt is the largest buyer of malting quality barley in Canada.

The drought has also reduced barley quality. Barley is a perishable commodity and lower quality barley degrades at a faster rate than a normal crop. This leads to reduced yields and higher production costs as more barley is required to produce the same quantity of malt, expected to be ~$10 – 13 million in FY22, of which ~$5.5 million has been incurred in the first half.

The significantly reduced Canadian crop has resulted in the Company incurring additional logistics costs to import barley into our processing plants in Canada from Denmark and Australia, expected to be ~$10 – 12 million in FY22[5], of which ~$2.5 million has been incurred in the first half.

The Company has incurred these additional costs in order to fulfil its commitment to provide uninterrupted supply of quality malt to customers to allow them to continue producing food and beverage products. The combined impact of additional barley required to address reduced quality and yield and additional logistics costs for importing barley is expected to negatively affect FY22 EBITDA by ~$20 – 25 million (as noted above).

These added costs are expected to be temporary. Planting for the 2022 Canadian barley crop has commenced and the new season crop is expected to be harvested in early FY23. Agriculture and Agri-Food Canada’s (AAFC) latest Canadian barley outlook is projected at 10.6 million tonnes production, 52% higher than 2021[4], assuming a return to normal weather conditions and trend yields.

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[1] SaaS costs for the 1H22 is expected to be ~$6 million; EBITDA in 1H22 is expected to be ~$51 million after SaaS (subject to audit review)
[2] SaaS costs for the FY22 is expected to be ~$13 million; EBITDA in FY22 is expected to ~$103 - $128 million after SaaS
[3] The $20-25m range of costs includes the ~$8-12 million cost disclosed at the FY21 results announcement for additional logistics to manage the imported supply chain. This range has now been revised to $10-$12 million.
[4] 20 April 2022, Canada: Outlook for Principal Field Crops, Agriculture and Agri-Food Canada
[5] Cost previously disclosed at the FY21 results announcement for additional logistics to manage the imported supply chain. This range has now been revised to $10-$12 million

FY22 Trading update

Processing:

Sales volumes in the Processing segment for FY22 are expected to exceed FY21 levels and approach pre-COVID (FY19) levels. This reflects the reopening of customer markets and increased consumer demand. Fundamentals remain positive for malt demand growth.

While customer demand is returning, the Processing segment continues to address the significant challenges of supply chain disruptions, recently exacerbated by the Ukraine conflict and port shutdowns in China.

Supply chain disruption in sea, rail and road freight has delayed shipments to some customers and associated revenue recognition in the first half. While the Company expects an improvement in the second half, volumes for the full year will be lower than previously anticipated. The Company expects the FY22 EBITDA impact of delayed sales from supply chain disruption to be approximately $8 million.

The Company is also incurring higher input costs, including energy and inbound and outbound freight costs. These increased input costs are expected to result in a net EBITDA impact of approximately $4 million in FY22. These recent cost escalations will be largely passed through to customers over the course of the next 9 months, reducing the impact into FY23.

Warehouse & Distribution:

United Malt's Warehouse & Distribution segment continues to benefit from reopening in major markets and the return of craft brewing demand, together with business optimisation initiatives which are generating improvements in revenues and underlying earnings.

The segment is also benefitting from its enhanced distribution capacity with 3 warehouses operational in Mexico and a new Company-operated warehouse in Derrimut, Victoria servicing customers along the east coast of Australia.

The Warehouse & Distribution segment operates on a relatively short cycle and is able to pass through input cost increases to customers and maintain margins in an inflationary environment.

The segment continues to benefit from the optimisation program that has been implemented over the past two years, including SKU rationalisation, enhanced inventory management, the new transport management system and dynamic customer pricing. As a result, United Malt expects momentum from the prior year to continue, with Underlying EBITDA for 1H22 to be approximately 14% higher than the prior corresponding half. FY22 Underlying EBITDA is expected to increase at a similar rate.

Transformation program:

The Company continues to progress its transformation program targeting net annualised benefits of $30 million by FY24. Recent tightening of the labour market, especially for skilled labour, has delayed the benefits expected to be received in FY22 and has increased costs in the implementation of the new technology platform (ERP). SaaS costs are expected to be $13 million in FY22 and net transformation benefits of $4.5 million are expected to be delivered in FY22.

The Company remains confident about and is committed to achieving the full $30 million in net annualised benefits by FY24.

Capital expenditure guidance

The Company confirms that capital expenditure for FY22 is expected to be approximately $110 million. FY22 represents the peak in growth capital expenditure as the Scottish build completes. For the next few years, the Company expects base capital expenditure to be in the range of ~$55 to 60 million including stay-in-business and safety-related investment in the range of ~$30 to 35 million.

Financial position

The Company expects gearing as at 31 March 2022 to be 3.2 times and at 30 September 2022 to be in the range of ~2.5–3.0 times. The increase in gearing is partially driven by higher barley and malt inventory prices resulting in increased inventory financing.

While this represents a temporary increase above the Company's target gearing range of 2.0-2.5 times, it is within banking covenants and gearing is expected to revert to the target range in FY23.

The Company has no significant near-term refinancing commitments with long term debt facilities not maturing until November 2024.

Dividend

United Malt's dividend policy remains to pay approximately 60% of Underlying NPAT as dividends.

Outlook beyond FY22

United Malt CEO and Managing Director, Mark Palmquist, said: "at the AGM in February, we outlined a number of external challenges facing the Processing segment this year, including Canadian barley crop conditions, supply chain disruptions and cost inflation.

"We have seen a further impact of these external factors since February, particularly the deterioration in the quality of the Canadian barley crop. We are addressing this issue for our customers through our ability to source barley by leveraging our international operations in key barley growing regions.

"Looking forward, we remain confident in the outlook for the business, particularly as these temporary factors begin to roll off as a more typical barley crop returns in Canada and we price customer contracts in the Processing segment to pass on the impacts of higher input costs over the coming 9 months.

"The fundamentals for malting remain positive. Beer remains a significant and growing beverage category while demand for craft beer and ancillary products continues to accelerate. Demand for distilling continues to grow with United Malt's customers laying down spirits for 10+ years for aged whisky.

"Customer demand is returning as most of our markets reopen and COVID-19 restrictions are lifted. We remain well placed to capitalise on these improving market conditions and continue to strengthen our operations accordingly.

"The project in Scotland will expand our capacity to serve the growing distilling segment and we continue to expect incremental EBITDA of approximately $18 million on a full year run rate basis. The Inverness facility is expected to be producing commercial quality malt in the fourth quarter of calendar 2022.

"Importantly, United Malt has set the foundations for a structural increase in earnings delivery from FY23, with the expansion in Scotland delivering additional capacity and the flow through of net transformation benefits. The temporary factors affecting FY22 will begin to roll off as conditions improve for crop supply and quality. Based on this, together with the initiatives we are implementing to strengthen the competitiveness of our business, we anticipate a meaningful increase in underlying EBITDA in FY23 and beyond," Mr Palmquist said.

United Malt will release its half year results for the period ended 31 March 2022 on 17 May 2022.

Forward Looking Statements

Certain statements contained in this announcement are forward-looking statements or statements about future matters, including any indications of, and guidance or outlook on, the future earnings, distributions, financial position and/or performance of United Malt. These statements involve known and unknown risks and uncertainties and other factors (many of which are beyond the control of United Malt) and involve significant elements of subjective judgement and assumptions as to future events (which may or may not be correct). No representation, warranty or assurance is given that the occurrence of any of the events expressed or implied in these statements will actually occur or that actual outcomes will not differ materially from the outcomes expressed or implied in these statements.

Conference Call Tuesday 26 April 2022 at 10am (AEST)

United Malt will host an analyst and shareholder conference call commencing at 10am (AEST) on Tuesday 26 April 2022. Please pre-register for the conference call at the link below or dial in via phone:

Conference call link:	**Conference dial in:**
https://s1.c-conf.com/diamondpass/10021730-CMEY4s.html	+61 2 9007 3187

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.