



Scrap metal downturn has Sims scraping the bottom

Company/ASX Code	Sims Metal Management Limited/SGM
AGM date	14 November 2019
Time and location	10.00am The Langham Hotel, 1 Southgate Avenue, Southgate VIC 3006
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Nick Bury
Pre-AGM Meeting?	Yes by phone with Chair Geoff Brunsdon and Company Secretary Gretchen Johanns

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

The worldwide ferrous scrap metal market has in the doldrums. This is a separate issue from current American and world economic performances. As a result, SGM is struggling, and has issued a downgrade to its profit outlook. A few days ago it announced that it's now expecting an Underlying earnings before interest and tax (EBIT) loss for 1H FY20 (first half, financial year 2020) of between A\$20m to A\$30m, and a full year FY20 Underlying EBIT profit of between A\$20m and A\$50m, provided that market conditions do not deteriorate further.

The short-term market fallout from the scrap price crash is expected to be worse than originally anticipated by the company. SGM had earlier told the market that 1H FY20 would be materially lower than the prior corresponding 2019 period.

Firstly, the collapse in the sell price for ferrous scrap and the resulting lack of market liquidity has made it impractical to drop the buy price at the same rate and remain competitive. Consequently, already compressed margins will continue to negatively impact results through to December 2019, as low and no margin cargoes are delivered. Secondly, some unsold inventory will have to be sold at a loss which will impact on SGM's results through to December 2019. Thirdly, the buy price has fallen potentially below the level at which it is economic for a number of SGM's suppliers to gather and sell scrap. This could mean some suppliers may sit on inventory until the price recovers, especially for both ferrous and zorba-related products. (Zorba is the collective term for shredded and pre-treated non-ferrous scrap metals, most usually originating from End-of-Life Vehicles or Waste Electrical and Electronic Equipment).

Consequently, SGM has had to either reduce margins to stimulate supply or reduce volumes. Margins and volumes are meaningfully lower across all metals recycling operating regions, hurting profits for as long as prices remain at subdued levels. These drops in prices have been caused by lower automobile sales and global manufacturing. Economic growth slowing in China and the world along with trade wars have caused a drop in the demand for steel and zorba-related products.

However, SGM's strong balance sheet together with its disciplined approach to capital expenditure and cost management should see it navigate through the current downturn and be well positioned for recovery.

The 5-year table shown immediately below shows SGM's performance since 2015.

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	72.3	191.2	120.1	38	101.5
EBIT (\$m)	230.3	279	182.4	58	142
Share price (\$)	11.04	16.39	13.79	7.92	10.54
Dividend (cents)	53	53	50	23	26
TSR (%)	-31.6%	16.24	75.3	-25.8	7.0
Statutory EPS (cents)	74.2	101.1	102	(106.8)	53.7
CEO total remuneration, actual (\$m)	5.13	5.74	4.92	2.26	3.32

For 2019, the CEO's total actual remuneration was 58 times the Australian Full Time Adult Average Weekly Total Earnings based on May 2019 data from the Australian Bureau of Statistics.

Resolution 1	Re-election of Ms Deborah O'Toole as a Non Executive Director (NED)
ASA Vote	For

Summary of ASA Position

Ms O'Toole has been an SGM director since November 2014, serves as Chair of the Audit Committee, and is a member of the Risk and Remuneration Committees. Her executive experience has been in the mining and transport and logistics industries, in management, operations and finance sector roles. More specifically, she has been the CFO of MIM Holdings Limited, Queensland Cotton Holdings Limited and Aurizon Holdings Limited. Her previous board experience includes directorships of the CSIRO, Norfolk Group, companies within the MIM and Aurizon Groups, and Government and private sector boards, and acting as Chairperson of the Audit Committees of CSIRO, Norfolk Group and Pacific Aluminium. Her current directorships are Alumina Limited, Asciano, and Credit Union Australia. ASA is for Ms O'Toole's re-election.

Resolution 2	Re-election of Mr Mike Kane as a NED - WITHDRAWN
ASA Vote	Vote no longer required

Summary of ASA Position

Mr Kane has decided not to stand for election and retired from the board 4 November 2019.

He the current CEO of a large unrelated listed entity, Boral, and ASA considered he did not have the time to devote to being an SGM NED. His accompanying ability/competence is not questioned, in fact his Boral appointment attests to his perceived skills, but the 2 appointments are irreconcilable from a time management viewpoint. ASA opposed his re-election.

Resolution 3	Re -election of Mr Hiroyuki Kato as a NED
ASA Vote	For

Summary of ASA Position

Mr Kato was appointed as an SGM director in November 2018. Mitsui & Co hold a 16.5% interest in SGM and are entitled to appoint a representative to SGM's board.

Mr Kato has longstanding experience working in the mining and oil industries and brings 'growth strategy' expertise to the board. He is a member of the Audit and Safety, Health, Environment, Community & Sustainability Committees. He commenced his business career working in Mitsui's iron ore division, where he gained his mining industry experience. He has held various positions in Mitsui's oil and gas divisions during his long career with that company. ASA believes that assumedly Mitsui knows who amongst their employees can best represent their interests on SGM's board. As Mitsui is a fellow traveller with other SGM shareholders similarly seeking for SGM to corporately perform as well as possible, ASA is in favour of Mr Kato's re-election.

Resolution 4	Reinsertion of Proportional Takeover Provisions in Constitution
ASA Vote	For

Summary of ASA Position

These provisions are designed to protect shareholders interests by affording them a majority vote decision as to whether a proportional takeover bid proceeds. This bargaining power can be wielded to obtain an adequately priced takeover bid, and affords shareholders an insight into whether a majority of them consider that a given offer is fairly priced.

The premises that these provisions discourage proportional takeover bids, and so reduce opportunities to sell shares at a premium price to persons or entities vying for company control, need to be balanced against the to be voted on safeguards for shareholders set out above, which

the motion provides. In any event shareholders are entitled to expect that their board would carefully any related takeover offers made with their best interests in mind.

Shareholders should read this proposal set out in SGM's Notice of Meeting, but the ASA representative intends supporting the motion on the day for the reasons given.

Resolution 5	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

SGM has for many years paid its key management personnel (KMP) largesse for poor performance. Its principal excuse proffered has been that it has to compete in the American market for staff, where practices such as granting options to KMP in addition to long-term incentives (LTIs), have been commonplace. SGM's stated rationale is it will not be able to retain suitable staff unless it maintains its current remuneration structure.

The scrap metals market, as stated above, is in a terrible space, so little blame should be apportioned to SGM for some of its current travails. However, their KMP are lucky to be employed given present market conditions, and SGM's NEDs have had an opportunity to review remuneration demands and seem not to have done so – we encourage the board to do so.

American based staff know that they are employed by an Australian listed entity, which is bound by Australian and not American remuneration practices. Shareholders are generally happy to reward good performance, but not poor performance, and key achievers can be well paid without being given options.

Whilst SGM claims to be intending to disband the practice of awarding options to KMP as from 2020, they propose to introduce an alternate Strategic Share Incentives (SSI's) scheme, when they can already reward staff utilising short-term incentives (STIs) and LTIs, as do other ASX-listed companies, without placing further imposts upon shareholders.

SGM's maximum opportunity for its STI plan is at 200% of base salary, which greatly exceeds other listed companies STI plans, where the maximum opportunity is 100% of base salary. Its plan to replace its current Return on Control Capital Employed (ROCCE) hurdle with an earnings before interest tax, depreciation and amortisation hurdle for its STI's does not alter the ASA's opposition to this 200% maximum opportunity excess.

The CEO's target and maximum opportunities as presented by the remuneration report are outlined below. The amounts are all in A\$.

CEO	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.84	27.5%	1.84	22.3%
STI	1.60	24.5%	3.2	38.7%
LTI	3.21	48%	3.21	39%
Total	6.7	100%	8.25	100%

SGM intends increasing the time span of its LTI plan from 3 years to 4 years, which is welcomed. The total LTI opportunity is set at 50% of remuneration, performance is measured by return achieved on invested capital (ROIC) and maximum vesting takes place when a return of 10.75% is achieved.

Resolution 6	Participation in the company's long-term incentive plan by Mr Field
ASA Vote	Against

Summary of ASA Position

The reason for also opposing this resolution is addressed immediately above and relates both to SGM issuing options to Mr Field, and to him being afforded the 200% maximum STI opportunity averted to above. SGM is an Australian domiciled company for listing purposes, and whatever percentile of its revenue is derived from its American operations does not excuse the implementing of bad remuneration practices, which have so far failed to incentivise SGM's KMP to produce a sustained decent performance to afford relief to its long suffering shareholders. Increasing profits over time usually drive share prices upwards, and the current share price sits at about one quarter of where it was a long time ago.

Resolution 7	Change of Company Name from Sims Metal Management to Sims
ASA Vote	For

Summary of ASA Position

The company's rationale for this name change is that it intends to expand into new environmental areas that are supposed to fit in with its current metal and electronics recycling business. The change of name is not opposed, as it will still be known by its principal name of Sims. This company has not performed well for a number of years now, despite intermittent signs of promise of better times to come, so shareholders can only hope that these new proposed forays into new areas will not be to the detriment of its bottom line of profitability.

The individual involved in the preparation of this voting intention has a shareholding in this company.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- *makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- *shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.