

## Building a business around break-down services

<b>Company/ASX Code</b>	Mader Group/MAD
<b>AGM time and date</b>	9.00 am (AWST) 11 October 2024
<b>Location</b>	Company office, Hkew Alpha Building, 2 George Wiencke Drive, Perth Airport.
<b>Registry</b>	Computershare
<b>Type of meeting</b>	Physical
<b>Monitor</b>	John Ferguson
<b>Pre-AGM Meeting</b>	No response to requests

Monitor Shareholding: The individual involved in the preparation of this voting intention has no shareholding in this company.

### 1. How we intend to vote

No.	Resolution description	
1	Adoption of Remuneration Report	Against
2	Re-election of Director – Mr. Patrick Conway	Against
3	Approval of Change of Auditor	For

### 2. Summary of Issues and Voting Intentions for AGM

- AGM format
- Board structure and governance
- Climate related issues

The AGM is a physical-only meeting. The venue, at the company's offices in the Perth Airport precinct, is not easily accessible.

The company listed with an independent Chair, but now the Board comprises 4 male non-independent directors. Three are executives, and the single non-executive director (NED) holds an indirect 20% shareholding via Skye Alba, an entity he controls. Company founder Luke Mader is the Executive Chairman. He holds 51.84% of the shares.

Climate related issues are not mentioned in the Annual Report. The closest reference is three sentences under the heading "Environmental Regulation and Performance". The three sentences remained unchanged from the FY23 Annual Report.

### 3. Matters Considered

#### Accounts and reports

The Mader Group started life as a mobile provider of mechanical services to mining industry clients in the Kimberley Region of Western Australia in 2005. In 2019, the company listed on the ASX. In the past ten years it has chalked up a 30% compounding annual growth rate, built on organic growth helped along by diversification in the types of services offered (fixed maintenance), sectors covered (energy, marine) and geographies (North America).

The FY24 results are very good with revenue of \$775.4m (up 27% from FY23), NPAT of \$50.4m (up 31%), declining debt \$31.2m (down 27%) and a 34% lift in dividends at a modest pay-out ratio of 31%. It should be noted that 24% of revenue comes from five key customers.

Pivotal to the company's success is its workforce, and there are a number of innovative investments to attract and retain staff. In a time of labour shortages, these investments have paid off. It should be noted that the company has a large casual workforce and recent Australian Government legislation may have a future impact.

#### Financial performance

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	50.4	38.5	27.9	19.3	17.5
Share price (\$)	6.29	5.70	2.66	0.85	0.78
Dividend (cents)	7.8	5.8	4.0	3.0	3.7
Simple TSR (%)	11.7	116.5	217.6	13.7	-
EPS (cents)	25.2	19.25	13.97	9.67	8.75
CEO total remuneration, Statutory (\$m)	2.93	2.16	1.68	0.407	-

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

#### Governance and culture

The company has a people-first approach both to its customers and its workforce. For employees, there are initiatives like Global Pathways and the Three Gears Internal Adventures to build a progressive work-place culture.

Governance from a non-independent Board with a non-independent chair is not ideal. On 12 April 2023, Jim Walker resigned from his position as the sole independent NED and chairman, and there has been no replacement in the intervening 18 months.

The company issued its Governance Statement on 20 August 2024. The company stated the lack of an independent Chair and majority independent directors in the makeup of the board committees and setting measurable gender diversity objectives to be "appropriate for the Company at its current stage" in its if-not-why-not explanation. Because it is not a member of the S&P/ASX300 Index, it meets the Listing Rule requirements relating to committees. The two board committees are made up of full board members and respective chairs are not independent. The Rem & Nom

committee (made up of full board members) determines the performance of the board and board committees. Similarly, the Rem & Nom committee is responsible for evaluation the performance of senior executives. Audit & Risk committee is made up of full board members.

The Board can use external consultants to review its operation, and it can use member “self-assessments” when required. A number of essential skills for Board operations are listed. A meaningful skills matrix attributing individual director skills is not provided.

Gender equity is an issue, with women representation at the Board level being 0%, at senior management 13% and management 27%. To date the company has not set measurable gender diversity objectives but it is not required to until the commencement of the reporting period after joining the S&P/ASX 300 Index. We would take early adoption as a sign of the company is maturing.

### **Key events**

Mader Group reported record annual revenue of \$774.5m, exceeding guidance and an increase of 27% compared to the prior corresponding period. Growth across multiple industry verticals and geographies has underscored the Group’s evolution, highlighting the compounding effect of diversified revenue streams.

### **Key board or senior management changes**

On 12 April 2023, Jim Walker resigned from his position as the sole independent NED and chairman. There has been no sign of seeking a replacement.

### **Sustainability/ESG**

Climate-related issues receive very limited attention, if any. The company has a fleet of 1400+ service vehicles which would leave a significant carbon footprint, but a rudimentary audit of carbon emissions is not declared and is probably lacking. Given that heavy duty diesel mechanical services form a central part of the company’s business, some sort of risk analysis looks prudent given the global investment focus on emissions reduction. Climate-related issues are not listed as a material business risk by the company.

Mader has been listed on the ASX for five years and shows no progress towards maturity and the governance standards expected if it was to join the S&P/ASX300 index.

### **ASA focus issues (not discussed above or under remuneration report or re-election of directors)**

The AGM is a physical only meeting. The ASA prefers a hybrid format where more shareholder voices can be heard. It is positive that MAD published a webcast recording of its FY24 Full Year Results Briefing.

## **3. Rationale for Voting Intentions**

### **Resolution 1: Adoption of Remuneration Report - Against**

The Strategic Plan Remuneration (which includes long term incentives) is difficult to understand and does not meet some ASA guidelines around the length of vesting of performance rights. There is no total shareholder return (TSR) performance hurdle.

On the positive side, awards are allocated using face value, but the framework is immature and gives no guide to the quantum that shareholders should expect once the current tranches expire in FY26.

**Resolution 2: Re-election of Director – Mr Patrick Conway -Against**

Mr Conway has 14 years of experience with mining and mining services industries. He has been with Mader for 10 years and has held the positions of CEO and CFO. Currently he is Director of Emerging Businesses and chairs the Audit and Risk committee. He holds a Bachelor of Business degree.

Shareholders would benefit by having an independent Chair nominated for Board positions.

**Resolution 3: Approval of change of Auditor (for)**

BDO Audit has provided auditing services to the company for some time. They do not provide non-audit services, and their fees are reasonable.

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## Appendix 1: Remuneration Framework Detail

Aggregate NED fees are set at \$300,000 pa. The only call on this pool is the \$60,000 paid to Craig Burton, the sole NED on the board. Executive Chairman and founder Luke Mader is paid a modest \$2,000 per day worked. He is not a beneficiary of any incentive plan.

For key management personnel, variable remuneration: annual short term incentive plan (STIs) is on offer and involves a cash bonus. There are three components:

- A financial metric is used (50% of the award) and involves a compound annual growth rate and minimum NPAT threshold. Target growth is not less than 25%pa and NPAT targets are negotiated at the start of the financial year.
- A TRIFR- an injury-free target – (30% of the award) is set at <4.0 incidents per million hours worked.
- Labour retention (20% of the award) is assessed by turnover rate and a target is set by the board at the start of the financial year.

Variable Remuneration Strategic Plan: long term incentive plan (LTIs) can involve an equity award as well as cash. A five year plan was adopted in FY21 with a focus on organic growth with two success milestones:

- NPAT >\$40m in FY24
- NPAT > \$60m in FY26.

The actual award is calculated using performance rights, share appreciation rights (SARs) and grants. There are no stated caps on the awards, but there appears to be a pool of rights from which awards are drawn. SARs are allocated using market value and feature a cash consideration based on share price at two different points of time. Apart from meeting milestones, no other targets are mentioned. For FY24, the target was met and rights vested on 22 August 2024.

### CEO's comparative package

Mader's remuneration package does not lend itself to the usual comparative table because target and maximum opportunity sums are not given. CEO Justin Nuich's statutory FY24 remuneration consisted of:

- Salary and fees: \$638,600
- STI cash: \$450,000
- Non-monetary: \$18,481
- Superannuation: \$29,212
- Strategic Plan Remuneration (LTI): equity valued at \$1,044,143 (valued by fair value calculations as is required by the accounting standards)
- Strategic Plan Remuneration (LTI): cash \$750,000.
- **Total \$2.93m.**

Take home pay is calculated to be \$5.9m with 750,000 performance rights with the share price at \$5.30. While \$5.9m is a large sum, 5-fold share price lift since allocation is a significant contributor. 77% of Mr Nuich's remuneration is at risk.