Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Riding the Lithium Boom

Company/ASX Code	**Allkem (AKE)**
AGM date	**Tuesday, 15 November 2022**
Time and location	10.30am (AEDT) Museum of Sydney, cnr Bridge St and Phillip St, Sydney.
Registry	Computershare
Type of meeting	Hybrid <https://meetnow.global/MWCG64G>
Poll or show of hands	Poll on all items
Monitor	Mike Sackett assisted by Bob Hansen
Pre AGM Meeting?	Yes with Richard Seville, Director and Andrew Barber, Director of Investor Relations.

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

Summary of issues for meeting

Allkem is a company with a current capitalisation of around $9 billion formed from the merger in August 2021 of Galaxy Resources and Orocobre, each of which at that time had capitalisations of around $3 billion. While the merger appears to have been well accomplished, the accretion in company value is not primarily due to bounteous synergies. Rather it reflects the extraordinary boom in the market for lithium, of which Allkem aspires to maintain at least a 10% global market share in the coming decade.

Given the magnitude of change for Allkem over the past 18 months, compounded by a sixfold increase in the value of lithium products in that period, it is difficult to apply normal benchmark indicators to the company's performance in FY22.

Proposed Voting Summary

No.	Resolution description	
1	Adoption of Remuneration Report	For
2	Election of Peter Coleman as a Director	For
3	Re-election of Richard Seville as Director	For
4	Re-election of Fernando Oris de Roa as Director	For
5	Re-election of Leanne Heywood as Director	For
6	Adoption of new constitution	For
7	Adoption of proportional takeover provisions (in new constitution)	For
8	Approval of Non-Executive Director Share Plan and Grants of Share Rights Under It	For
9	Approval of Performance Rights and Option Plan and Issues of Securities Under It	For
10	Grant of STI Performance Rights to the CEO and Managing Director	For
11	Grant of LTI Performance Rights to the CEO and Managing Director	For

Governance and culture

At the conclusion of the rather hurried FY21 AGM, the writer was left feeling that the merger of two such disparate companies as Orocobre and Galaxy Resources could be unduly problematic. With COVID restrictions impinging upon the ability of the Buenos Aires-based CEO to physically travel to Western Australia to oversee lithium hard rock mining operations and meet with the Perth-based Chairman, achieving a unified Allkem culture was likely to be difficult. Adding to this were the tasks of bringing Orocobre's ground-breaking lithium hydroxide plant in Japan into production and developing Galaxy's prospective James Bay (Canada) and Sal de Vida (Argentina) lithium deposits. In the event these concerns appear to have been unfounded. Substantial progress has been made in transforming Allkem to become an integrated, diversified, Australia-based global lithium producer and processor.

Financial performance

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT (US$m)	337.2	-89.5	-67.2	54.6	1.9
UPAT (US$m)	331.3	-83.7	-52.2	28.9	7.7
Share price (A$)	10.31	6.47	2.31	2.82	5.17
Dividend (cents)	0	0	0	0	0
Simple TSR (%)	59%	180%	-18%	-45%	49%
EPS (US cents)	51.6	-18.0	19.6	20.9	0.8
CEO total remuneration, actual (A$m)	3.687	1.163	1.225	2.013	1.124

Key Board changes

The August 2021 merger to form Allkem by amalgamating Galaxy Resources and Orocobre has led to a succession of Board changes. Immediately after the merger Martin Rowley the former Galaxy Chair became Allkem Chair, while Orocobre Chair Rob Hubbard became Allkem Deputy Chair. Three directors joined the Allkem Board from Galaxy along with three from Orocobre. At the time of the merger, it was announced that Rowley and Hubbard would both retire from the Board "over the next year". Rowley finishes after the AGM and Hubbard did so in October 2022, when Peter Coleman joined the Board. Subject to the latter being elected at the AGM, the Board intends to appoint Mr Coleman as company Chair, effective the conclusion of the AGM.

ASA focus issues not included elsewhere

Allkem takes a serious approach to ESG matters including a commitment to achieve net zero carbon emissions by 2035 by designing and developing assets with lower carbon intensity, maximising the use of renewable energy and supporting the development of low carbon technology. This has been undertaken, not just for altruistic reasons, but because the buyers of lithium products increasingly insist that the products have a low carbon footprint.

Resolution 1: Adoption of Remuneration Report – FOR

As described above Allkem is a company in unusually positive circumstances. Were this not so we certainly would question the more than 200% increase in CEO total remuneration in FY22 compared with the previous year. As it coincides with a similar increase in capitalisation of the company together with NPAT improving from a US$89 million loss to a US$337 million surplus, the increase in CEO remuneration seems justified. Reference to Godfreys' remuneration data suggests that the CEO's FY 22 total remuneration of A$3.69 million is very close to the median for the 22 companies in Allkem's size range.

The CEO FY22 remuneration comprised 32% fixed base salary while 62% was at risk (26% STI and 36% LTI). The remaining 6% was a Merger Completion cash bonus.

STI performance objectives for the CEO in FY22 were production and performance (30%), growth (25%), sustainability (15%) followed by equal 10% weighting to product quality, merger integration and qualitative management attributes. Overall, the CEO scored an 81% achievement with best results in the quality grading of products sold and lowest achievement in progressing Allkem's growth projects in Argentina, Japan and Canada. Half of the STI achievement is paid in cash, while the remainder is paid as performance rights. All rights grants are converted to shares at market rates.

LTI performance rights are subject to the following hurdles:

- 60% related on a sliding scale to the production target of 75,000 tonnes of lithium carbonate equivalent in FY22; two-thirds of this component are base production capacity related while one-third is a potential bonus for additional production up to 100,000 tonnes LCE per annum.
- 40% are subject to Allkem's Total Shareholder Return in relation to 20 other global lithium, copper, nickel and rare earth mining companies over the three year period to 31 August 2024.

The other nominated KMP was the CFO whose remuneration package comprised a 35% fixed base salary and at-risk elements similar to the CEO. In FY22 at A$1.87 million total remuneration was halfway between the median and the 75th percentile for like-sized companies.

Chair and NED remuneration at A$351K and 162K respectively is well below the median for similar-sized companies.

In conclusion we find the Remuneration Report to be acceptable in terms of the scale and structure of the incentive packages, and the clarity and comprehensiveness of the presentation.

Resolutions 2: Election of Director – Peter Coleman - FOR

Resolutions 3-5: Re-election of Directors Richard Seville, Fernando Oris de Roa and Leanne Heywood – FOR.

Assuming these four resolutions are passed at the conclusion of the AGM, AKE will have a Board of eight members, only two (25%) of whom are women. Given the international nature of AKE's operations there is appropriate geographical representation from Australia (4 directors), Argentina (3) and Canada (1). The directors bring experience in mining, energy, financial and legal matters.

Five directors are uncontestably independent, while Managing Director/CEO Martin Perez de Solay and Richard Seville are regarded by AKE as non-independent Directors. (Seville was in fact de Solay's predecessor as CEO and joined the board in 2019 without a break from his previous role.) Oris de Roa is the odd man out being regarded by AKE as an independent director, despite having been appointed to the Board as long ago as June 2010, which leads to him being non-independent in our eyes.

Peter Coleman joined the Board in October 2022, and if elected at the AGM will take on the duties of independent Chair. He appears to be an excellent choice with a resume including 10 years (2011-2021) as CEO of Woodside Energy. His only other directorship at present is with the US oilfield services giant, Schlumberger.

ASA supports the election/re-election of all four directors, whose workloads appear to be reasonable. They will help comprise a sound Board directing the relatively newly merged company in its varied operations in diverse jurisdictions. We will advocate that consideration be given to further female appointments, ideally with experience in downstream processing.

Resolution 6 - Adoption of New Constitution – FOR

Resolution 7 – Adoption of Proportional Takeover Provisions (in New Constitution) - FOR

The proposed new Constitution reflects changes to ASX Listing Rules and government legislation since the previous Constitution was adopted in 2005. ASA is satisfied it represents no diminution of shareholder rights.

Resolution 8 – Approval of NED's Share Plan and grant of Share Rights under it. – FOR

The NED Share Plan was introduced in 2019 to support NEDs building their shareholding in the company, thereby enhancing the alignment of interests between NEDs and shareholders in general. This resolution seeks to refresh approval for the grant of share for a further three years. The NED Share Plan is a pre-tax sacrifice plan which allows NEDs to sacrifice part of their annual director's fees to acquire Share Rights. Due to the salary sacrifice nature of the Share Plan, it is expected that only the four Australian Resident directors will elect to do so.

Resolution 9 – Approval of Performance Rights and Options Plan and issues of securities under it. – FOR

The company has operated a Performance Rights and Options Plan (PROP) since 2012 in order to assist in the reward, retention and motivation of key personnel. In 2019 the company was given shareholder approval to exempt future issues of securities under the PROP from the 15% limit under Listing rule 7.2. Approval is being sought to extend this exemption for a further three years consistent with ASX rules.

Resolutions 10 and 11 – Issue of Performance Rights to Managing Director and CEO Mr Martin Perez de Solay – FOR

Further to the discussion under Resolution 1 (Adoption of the Remuneration Report) the proposed new issue of STI and LTI Performance Rights is considered reasonable and appropriate. The STI performance objectives and hurdles are comprehensive, specific and demanding. They include a 25% weighting to meeting/exceeding the EBITDA budget target, a 15% weighting to "making material progress in the development of the management structure and organisational culture to deliver the company's aspirations", and a 10% weighting to Sustainability objectives including Group operations emissions intensity not exceeding 3.3Tn CO_2/tonne lithium carbonate equivalent.

The LTI performance objectives and hurdles are similar to those of FY22 but with the base production achievement being raised from 75,000 to 100,000 tonnes. At current sales prices that incremental production would be worth well in excess of US$1 billion. The relative TSR hurdles and 20 comparator global mining companies appear to be the same as in FY22.