



Cleanaway cleans up well!

Company/ASX Code	Cleanaway Waste Management Limited/CWY
AGM date	Friday 25 October 2019
Time and location	Customs House, 399 Queens St., Brisbane, Queensland 4000
Registry	Computershare
Webcast	No
Poll or show of hands	Poll on all items
Monitor	John Collins
Pre AGM Meeting?	Yes, with Chair Mark Chellew

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

Summary of ASA Position

Cleanaway is working to develop an inclusive culture that is supported by their Corporate Governance Statement. While overall, their board still features only one female non-executive director (NED) out of a total of six, the Corporate Governance Statement for 2019 indicates that the organisation will aim to improve this percentage by finding and nominating another female NED. The board is also aiming to increase the number of female senior executives where women are represented at only 11%. Cleanaway has indicated that their acquisition and integration of Toxfree Solutions in FY18 (financial year 2018) has also reduced the Company's overall diversity as Toxfree had fewer female employees and representation than Cleanaway, affecting the Company's ability to achieve their self-determined diversity targets for 2019.

Apart from this diversity issue, Cleanaway's corporate governance statement is comprehensive and presents a company that is in general alignment with the ASA's prescribed guidelines.

Cleanaway had a good year, financially, for the company, management and the shareholders. The general financial performance of the company attests to this and can be compared to previous year's performances. The Company's integration with Toxfree appears to be proceeding well. Cleanaway also agreed to acquire the recycling assets of SKM, the Victorian recycling business that financially collapsed last year, for \$66m in the second week of October 2019.

Mr Tim Richards was appointed Executive General Manager, Liquid Waste and Health Services in August 2018.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	123.1	103.3	72.5	43.1	-15.4
UPAT (\$m)	139.9	97.8	77.5	61.6	53.9
Share price (\$)	2.34	1.69	1.35	0.78	0.75
Dividend (cents)	3.05	2.2	1.9	1.7	1.5
TSR (%)	40	27	76	6	-22
EPS (cents)	6	5.6	4.4	2.8	-1.5
CEO total remuneration, actual (\$m)	7.5	6.6	5.0	2.8	NA

For financial year ending 30 June 2019 (FY19), the CEO's total actual remuneration was 85 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Cleanaway provides a clear statement of its Board members experience in the Annual Report, the Cleanaway website and the Notice of Annual General Meeting. These statements provide suitable knowledge of why such persons are appropriate for the Board. However, ASA recommends that at the election or re-election of a Board Member, there should be a detailed statement of skills brought to the Board and how those skills meet the requirements of the Board in the coming years. This information is currently not provided at the AGM Notice of Meeting.

ASA recommends that directors have appropriate "skin in the game" and suggest that NEDs, after three years on the Board should have invested the equivalent of a year of their Total Fixed Remuneration (TFR) in shares of the Company. Similarly, for the CEO a year's TFR invested in shares but after five years. There are six NEDs on Cleanaway's Board of which only three meet ASA's criteria for skin in the game.

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Generally, the Remuneration Report (Report) is clear and easy to read. But the detail is not easy to follow.

The Report shows a clear remuneration framework for the CEO in paragraph 4B. Table 4B does not show a Maximum Opportunity but is stated later in the Report as 150%. The take-home column below compares the actual payment for FY19 to the plan.

Paragraph 5A in the Report tables the remuneration received by key management personnel (KMPs). It includes cash paid and a present value estimate of amounts due from share-based payment whereas, the take-home amounts shown below are the cash stated plus share payments from shares vesting during the year and valued at the share price at the end of year. The large LTI

payment reflects how much the company has changed since 2017 and the hard work that has gone into achieving that outcome. Given the share price movements since then, a similar outcome should not be expected. However, there would appear a need to review the LTI Remuneration arrangements to ensure they do not become excessive.

CEO rem. Framework	Target* \$m	Target % of Total	Maximum Opportunity \$m	Maximum % of Total
Fixed Remuneration	1.4	40%	1.4	25%
STI – Cash	0.84	24%	1.68	30%
STI – Equity	0.21	6%	0.42	7.5%
LTI	1.05	30%	2.1	37.5%
Total	3.5	100.0%	5.6	100%

KMPs receive incentives by way of a short-term incentive (STI) and long-term incentive (LTI). Both are based on the TFR and performance against hurdles.

The STI consists of one-year performance period of the current year with 20% of the achievement being issued as Performance Rights payable at the end of the following year. ASA would expect 50% to be the quantity of the deferred portion. Clear and appropriate performance metrics are employed though it was noticed that the results against those targets are not specific and one metric was not reported upon. It was noticed that the Total Recordable Injury Frequency Rate (TRIFR) did not meet the hurdle which has negative implications for the company culture. The performance rights are calculated on the share price at the end of the performance period. However, in general the STI process is supportable and appears to be working appropriately.

The LTI has a three-year performance period. The performance period starts the year after the current year and the rights are calculated from the stretch TFR using volume weighted average price (VWAP) at the end of the current year. ASA would prefer a four- or five-year performance period. The rights are tested against hurdles and vest at the end of the performance period. The performance metrics are well documented (noting that performance measures have been reduced from three to two). The performance achievement for 2017 LTI offer is reported in a one-line final result. ASA would prefer to see a performance measure for each metric leading to the final achievement. The take-home pay raises questions about the overall setting of LTI system as discussed above. Subject to this query, the LTI process appears to be working satisfactorily.

The directors and KMPs' fee increase for the year was in the order of 10%. This does not fit comfortably with what is happening in the Australian wage scene or inflation. It has potential negative implications for the Company culture. However, given the company's overall good performance, ASA will support the Remuneration Report.

Item 3(a)	Re-election of Mike Harding as a Director
ASA Vote	Against

Summary of ASA Position

Mr Harding has been an Independent NED for 6.3 years. He is Chair of the Remuneration and Nomination committee and a member of the Sustainability committee.

He is Chair of three companies; Downer EDI Limited, Lynas Corporation Ltd and Horizon Oil Limited. Formerly he was Chair of Roc Oil Limited and a NED for Santos Limited.

He holds a Master of Science majoring in Mechanical Engineering. He has significant KPM experience around the world with BP Limited including General Manager of BP Exploration Australia.

ASA limits support to a director sitting on five separate and un-related listed company boards. The chair role is assessed being equivalent to serving on two boards. On this basis, ASA believes Mr Harding's workload to be excessive.

ASA seeks to enhance board and executive alignment with shareholders via shareholding requirements. A NED who has served three years on a board should have invested one year's fees in the company's shares. Mr Harding falls significantly short of this requirement.

Whilst Mr Harding has a lot to offer Cleanaway, the ASA will not be supporting his re-election.

Item 3 (b)	Re-election of Mark Chellew as a Director
ASA Vote	For

Summary of ASA Position

Mark Chellew has been a NED and Chair of Cleanaway for 6.3 and 2.7 years respectively.

He is a NED for three companies; Infigen Energy Limited, Virgin Australia Holdings Limited and Caltex Australia Limited. Formerly he was Executive Chair of Manufacturing Australia Limited and MD and CEO of Adelaide Brighton Limited.

He has 40 years of KMP experience around the world including CSR group of Companies in Australia.

It is noted that Mr Chellew has increased his shareholding during year. ASA congratulates him on doing so.

ASA supports the re-election of Mr Chellew.

Item (4a)	Approval of LTI grant to CEO/Managing Director Vic Bansal
ASA Vote	For

Summary of ASA Position

It proposed to grant Vic Bansal 962,731 performance rights under the Cleanaway Long Term Plan in this case, the 2020 LTIP Offer.

This is calculated using Vic's TFR (adjusted to 2019), using a stretch factor of 150% and dividing by the VWAP end of June 2019.

The offer is modified at the end of the performance period using two performance metrics (down from three used previously) being Company's Relative TSR compared with the ASX 200 Industrials Comparator Group and the Underlying earnings per share (EPS) compound annual growth rate (CAGR). Both have 50% weight. The performance measure of return on invested capital (ROIC) has been omitted from the FY20 LTI offer and the performance bar has been lowered for the EPS CAGR compared to those in the FY19 LTI Offer.

The previous application of the performance metrics seems to have been satisfactory with the achievement of about 70% plus of the performance rights vesting after application (Cleanaway does not provide the actual achievement against the metric and ASA suggests it should). The outcome of lowering of the EPS CAGR bar is yet to be seen.

ASA is not convinced that the ASX200 Industrial comparator is appropriate for a performance measure to demonstrate the CEO's alignment with shareholders. ASX would prefer the use of Absolute TSR together with no award if the TSR is negative.

ASA is against the use of underlying figures generally and specifically if used in a performance metric. ASA requires that Statutory figures be used. As there appears to be minor differences between Statutory and Underlying in the Cleanaway reported figures, it would seem an appropriate time to change over to Statutory based figures.

ASA will support this proposal noting that there are some fundamental differences in the performance measures which ASA would look for change in the future.

Item 4 (b)	Approval of Deferred Equity Plan (2019 Dep) grant to CEO/Managing Director Vic Bansal
ASA Vote	For

Summary of ASA Position

It is proposed to grant Vic Bansal 85,137 performance rights being the 20% of Vic's STI achieved in the FY19. These rights will vest on 30 June 2020 if approved at the meeting.

The rights are calculated using the 20% portion of the 2019 STI divided by the VWAP end of June 2019.

ASA supports this proposal.

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.