



Current impairments hurt profits even as NWH moves towards bigger profits

Company/ASX Code	NRW Holdings Ltd / NWH
AGM date	Tuesday 26 November 2019
Time and location	10am Duxton Hotel 1 St Georges Terrace Perth
Registry	Link Market Services Limited
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Len Roy assisted by Stephen Weston
Pre AGM Meeting?	Yes, with Chief Financial Officer Andrew Walsh and Company Secretary Kim Hyman

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

Summary of ASA Position

In recent years, NWH has benefited from both its geographic and multi discipline services, leading to diversification within the resource and infrastructure sectors.

Fast forward to Financial Year 2019 (FY19) and NWH has four business units: Civil, Mining, Drill & Blast as well as the recently acquired Mining Technologies (formerly known as the OEM RCR Tomlinson).

Headline numbers for FY19

Revenue \$1,126 million up 49% from \$754.3m in FY18. The company's Earnings Before Interest Taxes Depreciation and Amortisation (EBITDA) was \$144million up 54% from \$77.7m. Cash holdings are at \$65m and statutory earnings \$32.2m. A total dividend of 4 cents per share (cps), fully franked, was declared.

The EBITDA level is prior to taking into account a \$33.5m impairment as a result of the Gascoyne Resources Dalgara gold project being placed into voluntary administration in June 2019. The administrators are working through the sales and recapitalization process and NRW is progressing its work. We had considerable discussion with NRW on the circumstances leading to the impairment and possible outcome.

NRW is in a joint venture with Salini Impregilo of Italy for the Forrestfield – Airport link, a \$1.2 billion contract. Salini's share of the project is 80% while NRW's share is 20%. FY19 NRW revenue recognition was \$48.2m however NRW has reverted to recognising no margin on the contract due to contract variations not being addressed in a timely manner. The acquisition of the RCR OEM business February 2019 appears to be a good fit within NRW with early signs of good profitability & workload.

Divisional performance

	Civil (\$m)	Mining (\$m)	Drill & Blast (\$m)	Mining Technologies (\$m)
Revenue	383.5	622.9	140.9	30.9
EBIT	16.7	39.3	5.2	5.5

The tender pipeline is approximately \$8.0 billion and the NRW order book is \$2.2 billion as of 30 June 2019. Revenue guidance for FY20 is 1,500 million.

Governance

The board is made up of;

Michael Arnett Appointed NED 27 July 2007 and chair since 9 March 2016.

Jeff Dowling Appointed NED 21 August 2013.

Peter Johnston Appointed NED 1 July 2016.

Julian Pemberton Appointed a director 1 July 2006 and CEO/MD 7 July 2010.

Kim Hyman Company Secretary appointed 10 July 2007.

Mr Arnett has exceeded 12 years as a director and therefore would not be considered independent. However, we do acknowledge in his role as chair, he has successfully steered the business from the challenges associated with the bottom of a mining cycle to a growth business with a strong balance sheet and more diversified client base.

It is a small but effective board but in the light of the company's \$2.2bn work order and \$1.0 billion market cap, succession planning, diversity, skills plus relevant experience & independence need to be urgently addressed.

Capital Management & Shareholder participation

No capital raising occurred in FY19.

Skin in the Game

All NWH KMP have significant share ownership;

M Arnett 1,009,179, J Dowling 364,705, P Johnston 109,416, J Pemberton 10,208,497, A Walsh 2,895,498.

Financial performance

Summary

(As at FYE)	2019	2018	2017	2016	2015
Net Profit After Tax (NPAT) (\$m)	32.2	42.2	28.5	21.5	(229.8)
UPAT (\$m)	40.4	33.9	16.5	9.8	(93.1)
Share price (\$)	2.51	1.70	0.64	0.21	0.18
Dividend (cents)	0	0	0	0	0
TSR (%)	49	194	216	17	(80)
EPS (cents)	8.6	11.6	9.1	7.7	(82.4)
CEO total remuneration (\$m)	2.28	2.42	1.38	1.45	1.49

The CEO's remuneration for 2019 was nearly 26 times the average weekly Australian adult full-time earnings based on annualised ABS data from May 2019.

Item 2, Resolution 1	Re-election of NED Mr Peter Johnston
ASA Vote	For

Summary of ASA Position

Mr Johnston was first appointed NED July 1, 2016. He graduated from UWA with a Bachelor of Arts majoring in psychology and industrial relations. Relevant previous experience includes Global Head of Nickel Assets for Glencore plus CEO & MD of Minara Resources. He is a NED of Tronox Ltd (NYSE) and chairman of Jervois Mining Ltd.

ASA supports his re-election.

Item 3, Resolution 2	Adoption of the 2019 Remuneration Report
ASA Vote	Against

Summary of ASA Position

Remuneration Framework

CEO rem. framework	Max. Opportunity \$m	% of Total
Fixed Remuneration	0.95	28.17
STI - Cash	0.713	21.13
LTI	1.71	50.7
Total	3.37	100

There has not been material change in the NWH Remuneration structure in FY19 despite the company receiving a “First Strike” at the FY18 AGM (49.05% Against). ASA supported the FY18 Remuneration Report after considering the FY18 financial performance and the indication that a significant review would be undertaken in FY19.

Unfortunately, there continues to be areas of significant miss alignment with ASA S&P/ASX200 Voting Guidelines including:

Short Term Incentive (STI) awards where applicable are paid in cash. ASA nominates a minimum of 50% equity with a deferral period. NWH indicate 25% of an award may be deferred up to 12 months at the discretion of the Nomination & Remuneration Committee. It is unclear if this discretion has been activated.

STI hurdles are relatively soft being EBIT *OR* EBITDA. NWH nominate “specific objectives” but these are not defined. On balance we consider the NWH remuneration structure could be more specific on hurdles, financial & non-financial weightings & transparency and still meet its “commercially sensitive” concerns.

Notwithstanding the FY19 reduced NPAT compared to FY18, the STI at risk earnings FY19 were as follows;

J Pemberton 50%, A Walsh 50%, G Caton 100%, E Buratto 33%, J Whiteman 95%.

Total STI cash-based incentive payout FY19 was \$935,250 pcp \$195,000.

Long Term Incentive (LTI) performance period is a max of 3 years, however, NWH acknowledge a number of Performance Rights have been granted with periods of less than 3 years, acknowledging the recovery performances in 2016, 2017 financial years. ASA guidelines nominate 4 years as a realistic “long term” performance period. The hurdle for LTI is TSR and ASA prefers two hurdles for LTI.

We suggest NWH consider a secondary hurdle such as statutory EPS growth. The Remuneration Report shows “Fair Value” using the Monte Carlo methodology. Allocation is by face value, 30-day

Volume Weighted Average Price for 2019. NWH does indicate “value based on the 60-day Volume Weighted Average Price” was employed in the Senior Executive plan & Golding integration plan). ASA nominates the use of market value using VWAP for the purpose of all allotments.

Total LTI equity-based payments FY19 were \$1,371,281 compared to prior corresponding period (pcp) \$1,983,000.

We noted the base levels of KMP fixed remuneration did not change in FY19.

Page 14 of the annual report includes a five-year financial performance summary and page 21 provides a summary of KMP remuneration outcomes.

Noting the lack of change in the remuneration structure as well as the consistent misalignment with ASA guidelines, we will direct our proxies against this resolution.

Item 4, Spill Resolution. Conditional item	Conditional item. To be put to shareholders at the AGM if at least 25% of the votes cast on item 3 are cast against the adoption of the 2019 Remuneration Report.
ASA Vote	Against

Summary of ASA Position

If this Spill Motion is put to the meeting, and passed, a special meeting of shareholders will be held within 90 days of the resolution being passed.

The NWH Notice of Meeting (NOM) comments on the possible consequences if this spill motion is passed referencing:

- Loss of directors’ leadership, skills & knowledge
- Disruption to the company

Taking into account the comments under Governance, ASA does not support this resolution (if put) as it would have a significant negative effect on the operations of the business.

Item 5, Resolution 4	Approval of Performance Rights Plan
ASA Vote	For

Summary of ASA Position

This resolution is for shareholder approval of the performance rights plan, just so that shares issued, after vesting of the rights, are not counted in the ASX Listing Rule 7.1 15% limit of the shares that can be issued in any 12-month period without shareholder approval.

Since the PRP was last approved by shareholders at the 2015 AGM, 18,166,234 performance rights have been issued.

The terms & conditions of the PRP are listed in the NRW Appendix 1 in the NOM.

Item 6, Resolution 5	Executive Incentive Scheme Mr Julian Pemberton CEO & MD
ASA Vote	Against

Summary of ASA Position

In accordance with ASX Listing Rule 10.14, sections 200B & 200E of the Corporations Act 2001 and for all other purposes, the resolution seeks approval for the grant to the MD or his nominee of 1,164,490 Performance Rights under the company's Performance Rights Plan

The long-term incentive scheme is structured to grant performance Rights on an annual basis equal to 120% of the MD's annual fixed remuneration.

The previous award of rights approved by shareholders was at the 2017 AGM for the period to 30 June 2020.

The proposed grant is for two years from 1 July 2020 to 30 June 2022.

Valuation of the performance rights have been based on 30-day VWAP to 30 June 2019 (\$2.47)

Vesting is subject to performance hurdles (1) TSR growth (2) EBITDA cumulative earnings and (3) maximum gearing objective not to exceed 30%.

As ASA is voting against the remuneration report, we will also be directing our proxies against this resolution.

Item 7, Resolution 6	Amendments to Constitution
ASA Vote	For

Summary of ASA Position

In November 2018 ASX tabled a consultation paper titled "Simplifying clarifying & enhancing the integrity & efficiency of the ASX Listing Rules".

ASX is proposing to introduce a two-tier escrow regime relative to restricted securities. ASX will be amending Listing Rule 15.12 (restricted securities) with the amendments to take effect from 1 December 2019. While NWH does not have any restricted securities currently on issue the amended ASX Listing Rule necessitates amendment of NRW's Constitution. Details are included in the Explanatory Note included with the NOM.

The individuals or their associates involved in the preparation of this voting intention have no shareholding in this company.

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