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Becoming lite to prosper

Company/ASX Code	SIMS LIMITED (SGM)
AGM date	Tuesday 10 November 2020
Time and location	9:00 am AEDT agmlive.link/SGM20
Registry	Link Market Services Limited
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Nick Bury
Pre AGM Meeting?	Yes by phone with Chair Geoff Rumsdon

ASA WILL BE ATTENDING THIS VIRTUAL AGM VOTING ALL PROXIES WE RECEIVE AND ASKING QUESTIONS WITHIN THOSE LIMITATIONS IMPOSED BY THE CURRENT COVID PANDEMIC.

Please note any potential conflict as follows: The Monitor involved in the preparation of this voting intention has a shareholding in this company.

	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

SGM has been hit by a class action instigated by Williams Roberts Lawyers, which basically alleges that shareholders who bought their SGM shares between 23 July, 2014 and 19 February, 2016 did so under the premise of an SGM forecast of future earnings for which the company had no reasonable basis, therefore the company had engaged in deceptive and misleading conduct.

This law firm and other law firms engaged in these sorts of class actions tout their services in these regards in an effort to induce prospectively disaffected persons to join these actions, from which they seek to profit by either reaching an early settlement, sometimes paid for by the respective entity's insurers, or by trying to win a damage pay out at a later trial.

Companies sometimes settle as an alternative to facing the disruption to their operations occasioned by the time and money expended defending like actions. However SMG is fighting this claim, which seemingly has little merit. The price of ferrous or non ferrous materials in which SGM plies its trade habitually vary in price with market conditions, as do the prices of commodities sold by BHP and other resource companies, which is a caveat that generally applies to like profitability forecasts made.

Recent decisions reached in similar brought actions, when viewed as precedents for what decision a court might reach in this matter, are not encouraging for the plaintiff, but time will tell. Any like win by persons induced to join these actions comes at the expense of other shareholders, and the best disincentive to the mounting of any spurious claims occurs when the instigators lose their action and have to pay resultant costs.

SGM has had its 2020 results heavily affected by Covid 19 prevailing factors. It experienced a steep pre-Covid drop in ferrous scrap Metal prices in the first half of the 2020 year, which had started to improve in the second half, but in the first pre-Covid half the company had already lost about $22.5M before losing a further $35.4M in the 2nd half, to record a total $57.9M annual loss.

SGM is probably being competently run, but industry conditions in its sector have become a lot tougher. Actions were urgently taken to reduce costs and preserve cash~~,~~ with $110.4M of cash ~~is~~ recorded as being on SGM's books as of 30 June, 2020. Its 2020 sales revenue of $4,908.5M was 26% lower than in 2019 due to lower volumes and pricing, and this reduction best illustrates its current dilemma outlook wise.

Ferrous volumes processed dropped about 35% between 2019-20, and non ferrous volumes dropped by more than 50% over the same time period.

SGM continues to slim down, and its focus is entirely upon the most profitable parts of its business. Its European Compliance business was sold for $150M and a one off profit of $204M was booked on the sale of its associated land.

Its financial highlights as set out on page 3 of its 2020 annual report are not encouraging, but fault should not be attributed to it for factors beyond its control, being Covid 19 and the prevailing economy. Forecasting in an uncertain world is fraught with difficulty. However SGM's main business is domiciled in America, whose economy grew spectacularly last quarter, Covid infection rates notwithstanding. The results of the US election remain to be seen, and will have a bearing on SGM's outlook, as the current administration both pre Covid and in the last quarter has demonstrated that its policies so far have been conducive to growing its economy, which would provide a tailwind to SGM's outlook going forward.

SGM's current Management and Board have shown an ability over the past 5 years to markedly increase profitability when market conditions have been better, and have also vigorously attacked waste, so shareholders can only await better times.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	(58.1)	161.9	191.2	120.1	38
UPAT ($m)	(57.9)	230.3	279	182.4	58
Share price ($)	7.93	10.86	16.08	15.18	7.82
Dividend (cents)	6	42	53	50	23
TSR (%)	(34.3)	(31.6)	16.24	75.3	(25.8)
EPS (cents)	(28.7)	78.8	101.1	102	(106.8)
CEO total remuneration, actual ($m)	3,048	4,238	5,74	4,92	2.26279

*No final Dividend declared due to Covid-19 Impact.

For 2020, the CEO's total actual remuneration was **34.19 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian

Resolution 1	**Re-election of Mrs Heather Ridout as a Director**
ASA Vote	**Against**

She was first appointed as an SGM Director in September 2011, then was appointed Chairperson of the Remuneration Committee in December 2018, and she is a member of the Safety, Health, Environment, Community & Sustainability (SHECS) Committee, the Risk Committee, and the Nomination/Governance Committee. Her qualifications and experience are set out in SGM's 2020 Notice of AGM, but don't make mention of any CEO of CFO hands on type experience of running a business, or of having had prior experience in the scrap metals business. What pertinent experience that she does have with regard to SGM's operations is that of lobbying, which is a helpful skill when either corporations are beset by often poorly thought out new government laws and regulations, or when negotiating corporations' paths into new markets.

ASA believes that for a director to be aligned with shareholders who they represent, that within 3 years they have purchased shares equivalent to one year's remuneration. In 9 years Mrs Ridout has only purchased a tiny portion of that.

For years ASA has voted against the Remuneration report as can be seen in Resolution 3 instead of becoming better it has worsened. For these reasons we will be voting our undirected proxies against her.

In addition, on the next prospective re-elective occasion she would have served 12 years on SGM's board, so would no longer be considered an independent director. Furthermore, SGM might then be afforded an opportunity to strengthen its board by appointing a candidate who is availed of specific experience and skills in the steel industry, that are pertinent to SGM's business model.

Resolution 2	**Re-election of Mr Thomas Gorman as a Director**
ASA Vote	**For**

He was appointed as a director on 15 June 2020, and to date he has become a member of SGM's Safety, Health, Environment, Community & Sustainability (SHECS) Committee. His CV presents as promising in that he is listed as having been the Global CEO of Brambles Ltd for 7 years, retiring in February 2017. Prior to that he was with Ford Motor Company for 21 years, where he ended up as President and CEO of Ford Australia from 2004 to 2008.

He is also an experienced company director, and is currently a director of two ASX-listed companies, being Worley Ltd, a global provider of professional project and asset services, and Orora Ltd. His academic qualifications are set out on SGM's 2020 AGM Notice.

Although none of his corporate experience listed is in the scrap metals business, he has served 2 stints as a CEO of 2 substantive international companies operating in different fields, so should bring business experience and acumen to the board, thereby hopefully strengthening it.

Resolution 3	**Adoption of Remuneration Report**
ASA Vote	**Against**

CEO REMUNERATION IN 2021

CEO rem. framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.755	25%	1.755	20%
STI - Cash	1.755	25%	3.510	40%
STI - Equity	0	0	0	0
LTI	3.510	50%	3.510	40%
Total	7.02	100	8.775*	100%

- The actual amount is higher, but unknown

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration

SGM is a long term addict to dreadful remuneration practices. As an Australian domiciled company it derives the bulk of its revenue from its American operations, so utilises this premise to adopt American type executive pay structures which favour largesse at the expense of performance. These practices have so far failed to incentivise SGM's KMP to produce a sustained decent performance to afford relief to its long suffering shareholders. The current share price sits at about one quarter of where it was a long time ago.

SGM'S Australian based board members have intermittently railed at the pay excesses demanded by their American based staff, with occasional successes, but usually they roll over to a greater or lesser degree when confronted with these demands. They have occasionally used their bargaining power during downturns when their US KMP assumedly had few other presenting employment options, but never really took advantage of these opportunities offered.

Shareholders are usually happy to pay for performance, but not for lack of the same.

SGM's STI is paid in cash, and not as a mixture of cash and shares, so none of its STI awards are at later risk. Its total prospective STI award that can be earned is 200% of its CEO's base wage, which is too high, and well above say an acceptable 150%. In recognition of the decline in business levels, the impact on so many of our employees and the continued uncertainties that remain, at the recommendation of management, the Board exercised its discretion to forfeit any STI entitlement for FY20 for the CEO and all KMP Executives. Management recommended this action despite the achievement of personal objectives not tied to the Company's financial performance.

The value of SGM's CEO LTI award is unknown. The notice of meeting states that the LTI is valued at A$3,433,824 as the number of Performance Rights in the bonus are calculated based on the August 20 share price this would mean there are 421,328 Performance rights. However this is not the case as the Company is one of the last in the ASX 200 to use the non-transparent Fair Value to calculate the bonus so there is no indication of what it is actually worth.

SGM's LTI's comprise of TSR Rights, Strategic Rights and SSI Rights as set out on page 43 of its Annual 2020 Report, which is viewable online. Its TSR Rights, which comprise of 23% of the mix, vest over 3 years, but the Strategic Rights and SSI Rights, which are respectively 45% and 33% of the mix are measured over a one year period, as opposed to a three or four year period, so are not Long Term Incentives at all.

The TSR Performance Rights in reality have no hurdles at all, as all that SGM has to achieve to enable 100% vesting is to do as well as the average of its stated peer group, which work in some of the same challenged industries, and whose collective performance achieved may well be below the ASX market average in any event.

SGM's Remuneration Report is the worst sighted so far this year by the Monitor compiling these ASA Voting Intentions.

Resolution 4	**Participation in the company's Long Term Incentive Plan by CEO MR Alistair Field**
ASA Vote	**Against**

Summary of ASA Position

Approval is sought for SGM to issue an unknown number of Performance rights worth an unknown amount at the time the award is made.

The reason for also opposing this resolution is comprehensively addressed above, but does not reflect adversely on Mr Field's operational competence, which remains to be assessed either positively or negatively over a longer time period. However, at least to date he appears to be performing operationally better than his immediate 2 predecessors.

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