AGM 2021: Shareholder Q&As

The Company received the following questions from shareholders:

Question: What are the non-controlling interests which received payment of dividends totalling £7.9m in 2020 (Consolidated statement of changes in equity)?

Answer: Dividends paid to non-controlling interests relate to payments to minority shareholders in group subsidiary companies where the group does not own 100% of the shareholding. These companies are included in Note 44 - Fixed Asset Investments. The payment of £7.9m is part of a much larger amount paid up as intra-group dividends which are paid periodically to access cash from our non-UK subsidiary companies and recognise profits attributable to those subsidiary companies at the holding company level. These payments allow for the flow of funds within the Group to support the payment of a dividend to Ordinary Shareholders.

Question: Why is Morgan Advanced Materials not offering its shareholders any digital facilities to attend and vote at the AGM on line, in line with what many other companies are doing? Why is the deadline for submitting questions set at 26 April, and not 4 May (proxy deadline)?

Answer: Firstly, Morgan's decision to not hold a hybrid meeting, whereby shareholders vote and participate electronically, is because our Articles of Association have not yet been updated to allow for this. We are taking steps to make the necessary changes to our constitutional documents, as set out in our Notice of Meeting.

Secondly, Morgan now has a very low level of attendees at its Annual General Meeting (two shareholders present in 2019), and whilst our preference is to welcome shareholders in person, the Company have not had many attend AGMs in the recent past. As a result, and after careful deliberations, the decision to not go ahead with electronic participation was made, balancing the number of expected attendees with the costs of providing an audio or webcast meeting. The AGM presentation normally provided by the CEO is a summarised version of the full-year results presentation which is already available on our website as a webcast. It is also worth noting that all votes are cast by proxy voting meaning that the voting outcomes are already determined prior to the AGM itself.

Morgan set its question submission deadline of 26 April simply to ensure a response ahead of the proxy deadline, for shareholders who may have written by post and who do not have an email address. Morgan does have a number of shareholders who prefer to communicate in this way so an earlier deadline was set. The earlier deadline also allows all shareholders who have website access the opportunity to review the questions and answers and take these into account before they cast their vote. Any shareholder who writes to the Company will receive a response, and if any questions are received after the deadline of 26 April these will be published up to the proxy deadline of 4 May 10.30 am. Morgan welcomes engagement with its shareholders and would not wish to dissuade any shareholder from giving the Company their views.

Question: Are the Company's annual losses and revenue reduction reported in March 2021, due to COVID-19 or a more general decline in trading?

Answer: Trading has been resilient with revenue decline of 11.4% on an organic constant-currency basis driven by a decline in the underlying business due to COVID-19, foreign exchange headwinds and the impact of divestments. The less pronounced decline in comparison to the global economy demonstrates our strategic progress and the benefits of our diverse end-markets.

Question: In March 2020 the Company cancelled its proposed final dividend. In November it declared an interim dividend, and in March 2020, a final dividend. What were the considerations between caution and continuity? Did the company cancel the dividend too quickly?

Answer: The withdrawal of the dividend was made due to the considerable uncertainty that existed at the time, as announced in the COVID-19 update released on 31 March 2020.

The Board is recommending a final dividend, subject to shareholder approval, of 3.5 pence per share on the Ordinary share capital of the Group, payable on 21 May 2021.

Together with the interim dividend of 2.0 pence per share paid on 11 December 2020, this final dividend, if approved by shareholders, brings the total distribution for the year to 5.5 pence per share (2019: 4.0 pence).

The step-by-step approach represents a responsible and balanced approach to the uncertainties of the global pandemic, which made it possible to react appropriately to the unpredictable developments of COVID-19 in both a positive and a negative direction in the interests of the company's robustness and shareholders' expectations.

Question: Is the dividend sustainable from current earnings?

Answer: A total dividend of 5.5 pence per share represents a dividend cover of adjusted EPS of 3.5 times.

Looking forward, the Board is looking to grow the ordinary dividend as the economic environment and the Group's earnings improve, targeting a dividend cover of around 3 times adjusted EPS on average over the medium term.

This level of cover ensures sufficient resources are available to continue to invest to support the Group's long-term prospects, as well as meet the needs of other stakeholders of the Group, including deficit contributions to the Group's defined benefit pension schemes.

Question: How much has COVID-19 directly affected demand for Morgan's product as opposed to the general difficulties in sanitation, transport, health concerns which COVID-19 has engendered?

Answer: The impact we saw in 2020 was primarily due to indirect rather than direct impacts. For example, our sales into aviation markets declined with the lower aerospace activity in the year, whilst healthcare and security revenues were less impacted. We also benefited from our broad global exposure, with many markets in Asia less impacted than those in Europe or the Americas.

Question: Morgan has reduced debt over the past year. Is the aim of the Board to eradicate debt entirely or is there as a level which the Board considers both acceptable and cost efficient? Are the interest payments sustainable from current earnings?

Answer: Net debt reduced in the year due to the work we have undertaken to strengthen the balance sheet and preserve liquidity during COVID-19. Debt remains a component of our capital structure strategy and our target leverage is to be around 1-1.5x net debt excluding lease liabilities to EBITDA.

Interest payments under our debt facilities are considered to be sustainable from current earnings, and we have sufficient headroom on our banking covenants in respect to interest cover.