



Sims Metal Management

Pitched by: Nehaal Ram



**SIMS
METAL
MANAGEMENT**

Sims Metal Management

An Introduction



**SIMS
METAL
MANAGEMENT**

Metrics

Current price (09/04/2020)	\$6.65	Market cap	\$1.40B
52 week range	\$5.520 - \$12.980	Enterprise value	\$1.55B
Forward Dividend & Yield	\$0.25 (3.86%)	Latest Diluted EPS and 3Y Historical EPS	-0.06, 0.916

- Founded in 1917, Sims Metal Management Ltd is the largest listed metals recycling company globally
- The company specialises in ferrous and non-ferrous metal recycling, post-consumer electronic goods and municipal waste recycling
- Primary operations are located in the United States, Australia, New Zealand and the UK and 14 other countries
- Processes over 10 million tonnes of end-of-life vehicles, appliances and demolition scrap to be re-used as new steel, aluminium, copper and other commodities

Sims Metal Management

Value-Investing Investment Thesis

Investment Thesis

International Market Dominance

- With over a century of organic growth and M&A, SGM is now the international leader of its respective sectors

Attractive industry

- Recycling volumes will continue to increase long-term, SGM is poised to increase EBITDA through international manufacturing & consumption

Environmental Sustainability

- One of the world's 100 most sustainable companies. Index component of DJ Sustainability Index and renowned for exemplary corporate social responsibility

Trading at a significant discount to historical averages

- Trade tensions, tailwinds in commodity prices from China and COVID-19 has affected SGM the most within the ASX200



Sims Metal Management

A century's worth of recycling



100

YEARS

Albert G. Sims Ltd

1917

Albert G Sims
starts a scrap
metal
collection
business

1948

Albert G Sims
Ltd listed on
Australian
Stock
Exchange

1956

First export
sales of steel
scrap metal
to Japan

1988

Entered the
US metals
recycling
market with
acquisition of
LMC in
California

2005

Merged with Hugo
Neu, one of the
largest exporters of
scrap metal in the
US

2008

Acquired Metal
Management,
one of the
largest recyclers
in the US

2007

Formed a
joint venture
with Adams
Steel creating
SA Recycling

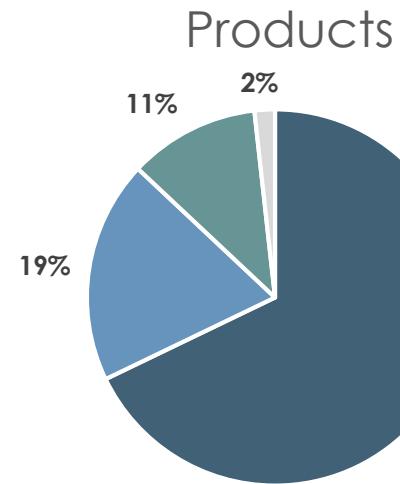
2017

Celebrated 100 years

S
M
M

Sims Metal Management

Well segmented revenue base



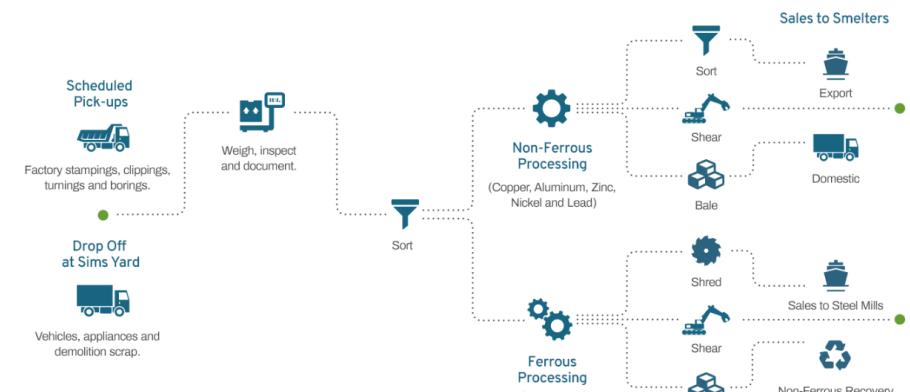
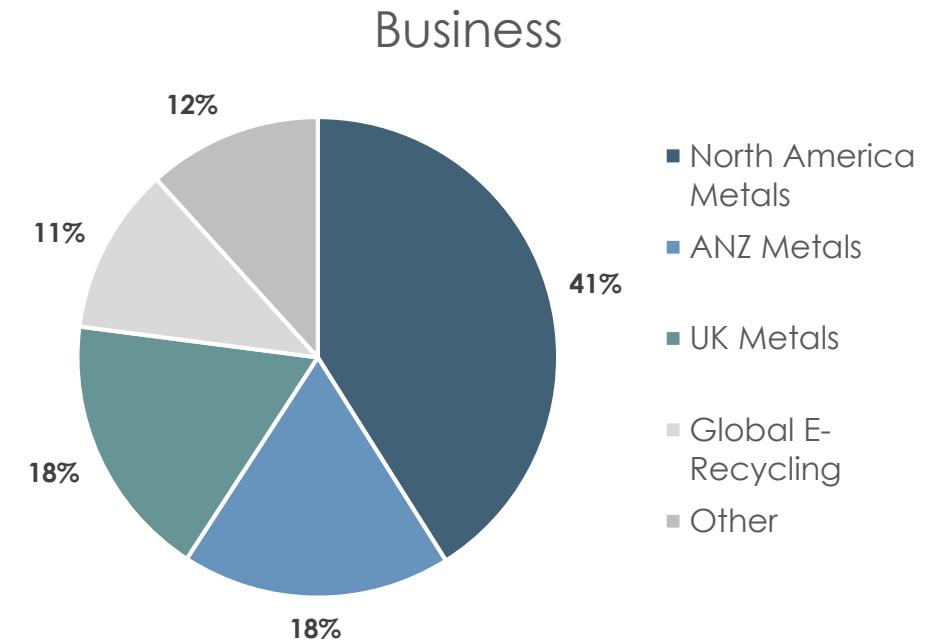
- Ferrous Metals
- Non-Ferrous Metals
- Global E-Recycling
- Secondary processing

Ferrous Metals – Containing iron, used to make steel

Non-Ferrous Metals – Not containing iron compounds, used to make primarily aluminium

Global E-Recycling – safe disposals and recycling of electronic devices

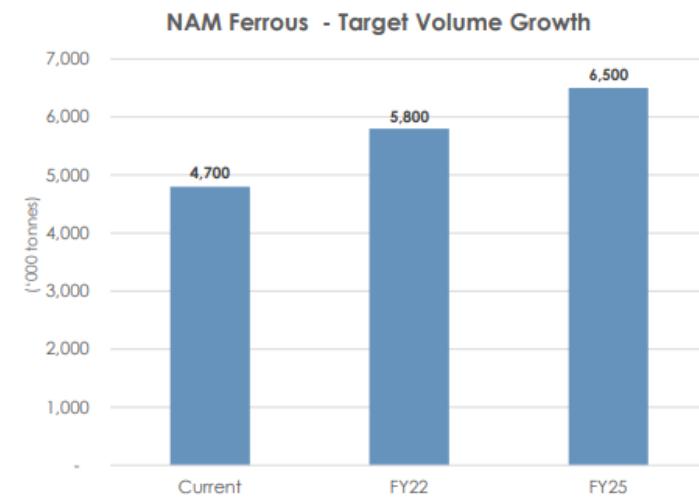
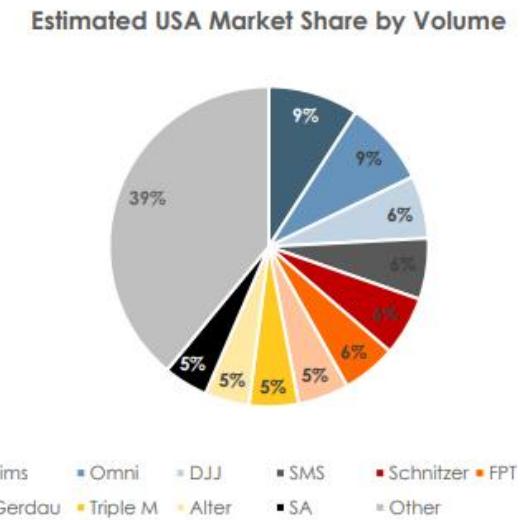
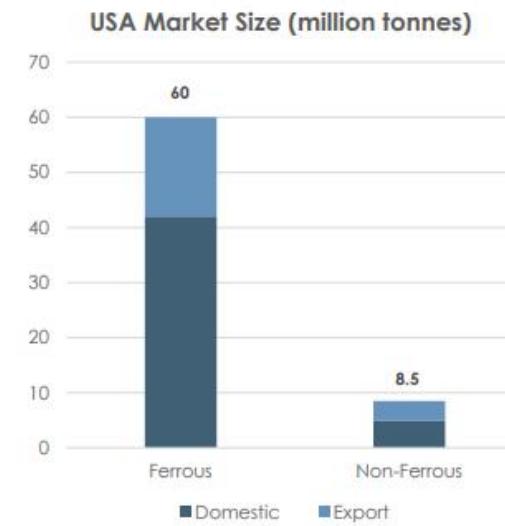
Secondary processing – municipal recycling, global trading, and energy production



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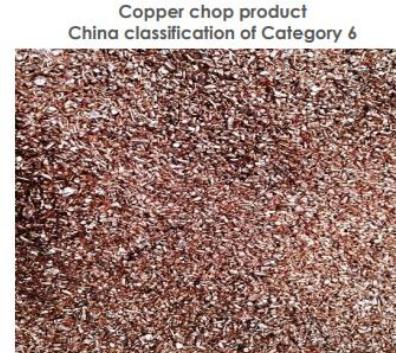
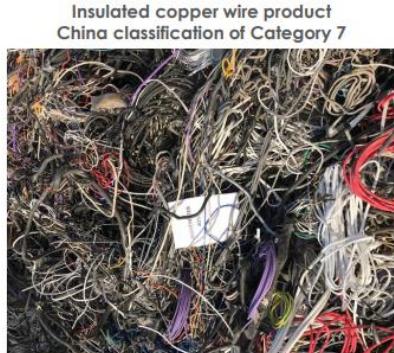
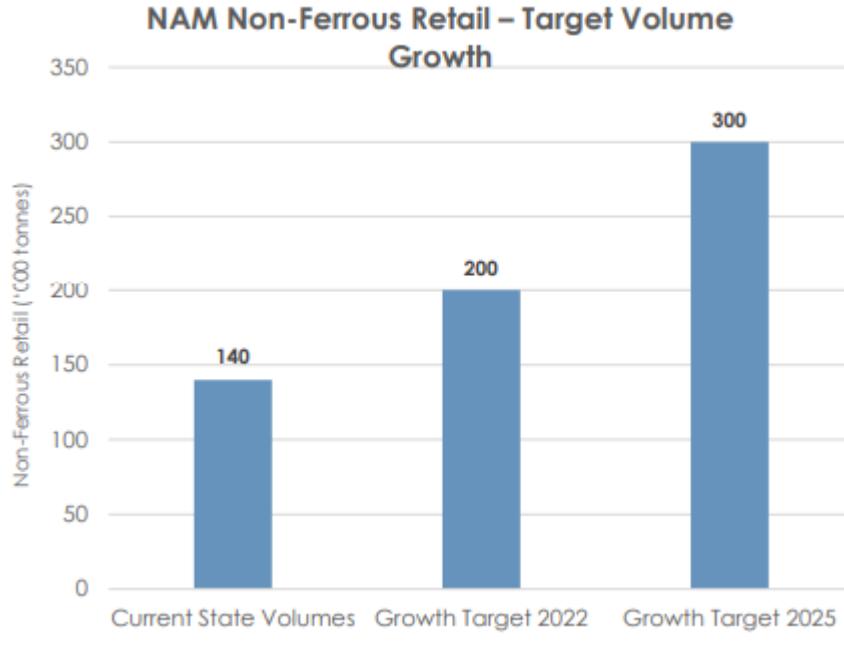
Most Valuable Product – Ferrous Metals

- SGM recycles 9.4m tonnes of ferrous metals, which makes up 67.8% in revenue
- Sourced through metal dealers, peddlers, auto wreckers, demolition firms and other generators of obsolete and industrial metal and turned into steel
- With ferrous production reaching maximum market shares across UK and ANZ, SGM intends to grow the US ferrous metal business ~40% by 2025
- Growth initiatives; feeder yard expansion, bolt on acquisitions, enhance metal yields and improve logistics
- Ready to play in export markets and meet customer demand for higher quality materials



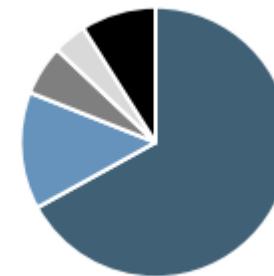
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Next up, Non-Ferrous Metals



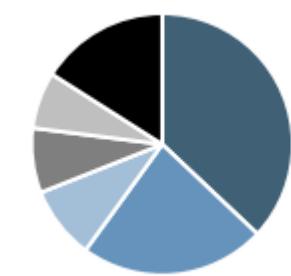
- SGM recycles 430k tonnes of non-ferrous metals. These include aluminium, copper, lead and tin
- Double US non-ferrous business by FY2025, whilst continuing geographical diversification
- Growth initiatives; increase buying from source, product diversification, and inorganic opportunities
- FY19 saw a greater fall in non-ferrous shred sales price than shredder feed buy price, leading to lower EBITDA

Non Ferrous Export Sales Volume 1H18



■ China ■ India ■ Korea ■ Pakistan ■ Other

Non Ferrous Export Sales Volume 1H19

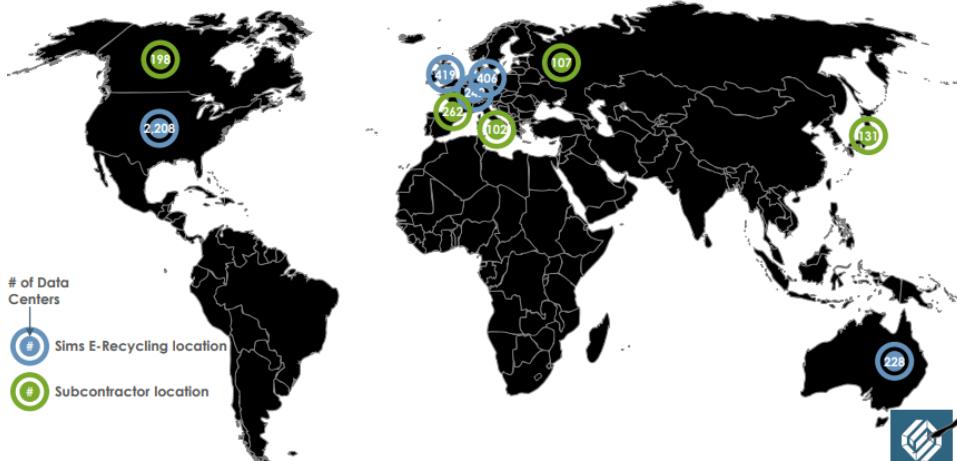


■ China ■ Korea ■ Pakistan ■ Other
■ India ■ Malaysia ■ Other

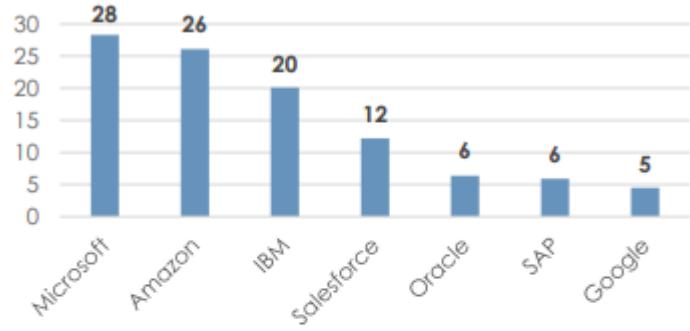
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Pioneering the E-Recycling movement

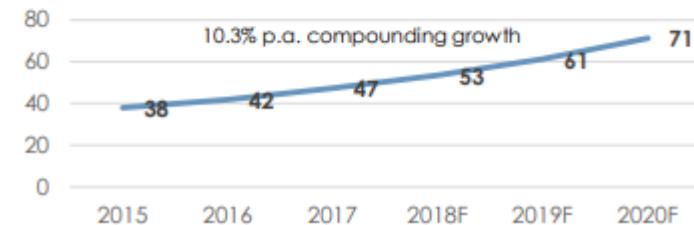
- SGM is ready to grow services for recycling the cloud, with projections for cloud recycling to be 10% by FY25 and being the OEM supplier of choice for recycled plastic
- 3 types of customers; cloud service providers, data centre hardware providers and large corporate clients
- Sims already has established relationships with most of the Fortune 100, and offers synergies with other Sims' lines
- Sim's E-Recycling is a first-mover globally, ready to capture the Infrastructure as a Service (IaaS) segment



2018 Cloud Revenue¹ (US\$bn) estimated



Data Centre Equipment Market² (US\$bn)



Sims Metal Management

Well diversified through other products and regions

Sims Waste to Energy

- Sims generate 1.3 millions tonnes of Automotive Shred Residue (ASR) per year that cost remove \$103 million in waste costs per annum
- Pipeline of WtE facilities will remove 75% of ASR costs

Sims Energy

- Joint Venture with LMS Energy (landfill energy) to turn landfill gas into electricity generation
- Replicating LMS Business model in US

Sims Municipal Recycling

- Processes 500k tonnes of curbside material
- Tailwind pressures due to declining volume of plastic materials



Industry

Examining how Sims is underpinned by commodities & economies



Sims Metal Management Commodity prices & economic activity underpins Sims

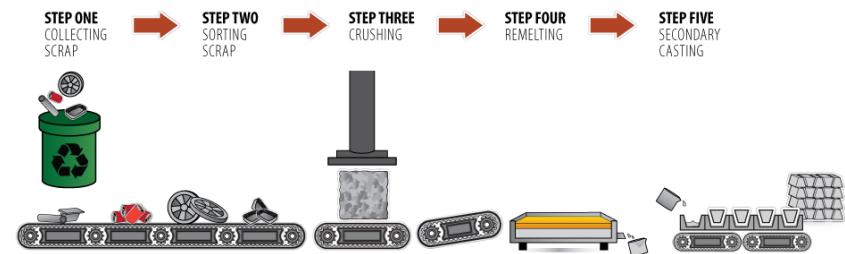
Commodity Drivers

- Global demand for recycled copper is projected upwards, driven by Chinese smelter needs
- New copper from a ore mine takes ~10 years, but additional capacity of copper is required for electric vehicles and buses
- Recycled aluminium is required by automobiles, packaging and construction. Aluminium is the second most material in the automobiles industry
- FY19 saw a greater fall in non-ferrous shred sales price than shredder feed buy price, leading to lower EBITDA

Economic Drivers

- Chinese smelters have a growing need for better quality products, hence Zorba Project in Adelaide
- Hammered by trade wars, especially with heavy importer involvement i.e. China and Turkey

RECYCLING ALUMINIUM



FINANCIAL REVIEW

[Companies](#) [Manufacturing](#) [Recycling](#)

[Print article](#)

Sims profit hit by trade wars, shipping costs

[Liam Walsh](#) Reporter

— Chanticleer

Sims Metals Management might be our biggest ASX trade war casualty



Chanticleer is Australia's pre-eminent business column.

Updated Jan 21, 2019 – 4.39pm, first published at 11.06am

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Strategy + Competitive Advantage

*Dissecting what makes
Sims so special*

Sims Metal Management

Continuing to lead the conversion of waste

- Sims will broaden its participation in the environmental sector to continue being the global leader in metals recycling, convert waste into energy and grow trends in recycling the cloud
- Sims purpose is to create long-term value by providing secure and sustainable management of resources within the circular economy
- This will lead to safer working sites and reductions in earnings volatility and operational risk

Sims Group



Sims Metals

Fortify and grow sustainable profits



Sims Waste to Energy

Utilise waste to create new revenue stream and reduce costs



Sims e-Recycling

Grow product stewardship and services for recycling the cloud



Sims Energy

Expand proven business model and technology globally

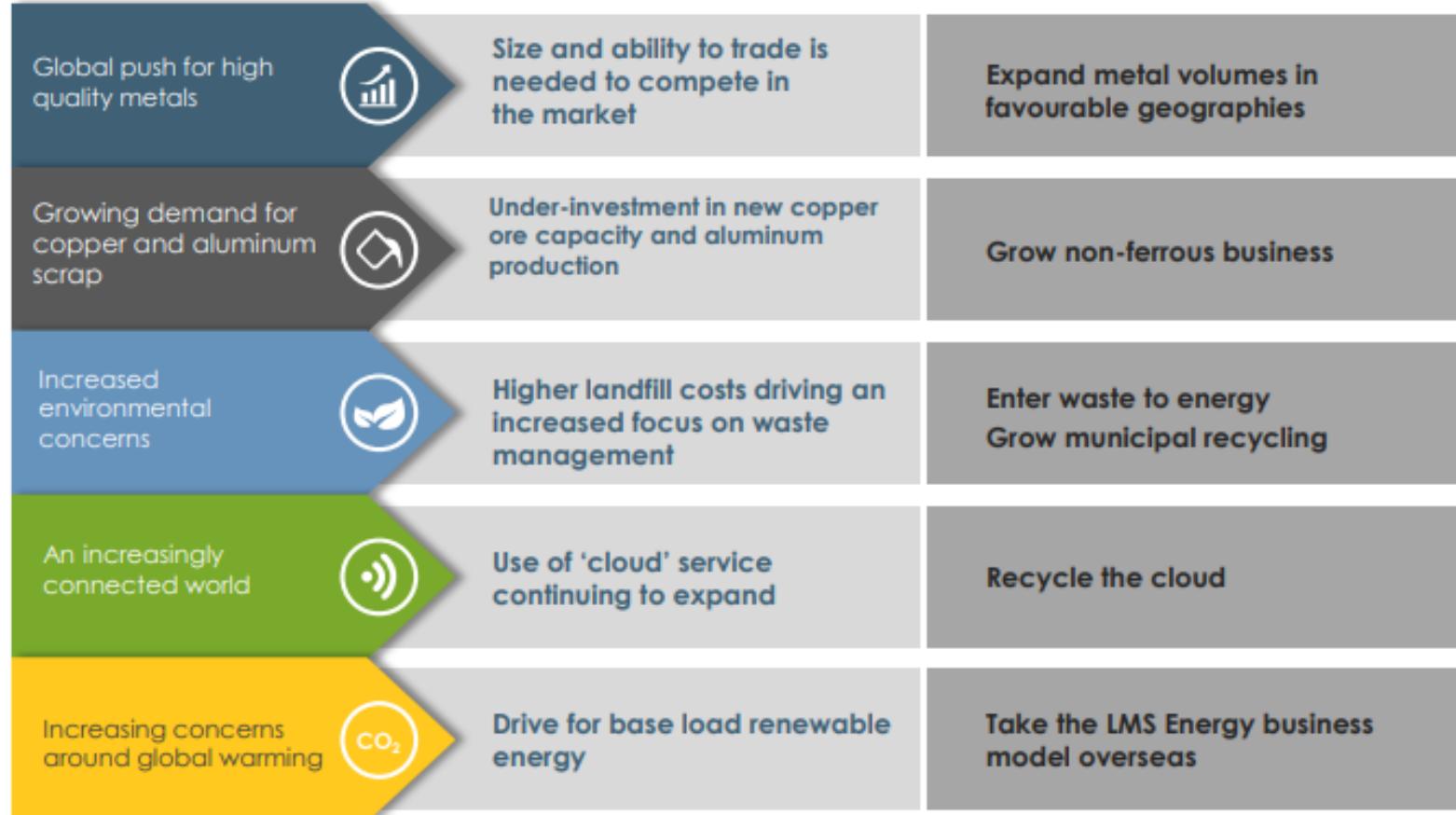


Sims Municipal Recycling

Develop recycling solutions for major cities

Sims Metal Management

Well planned to lead recycling

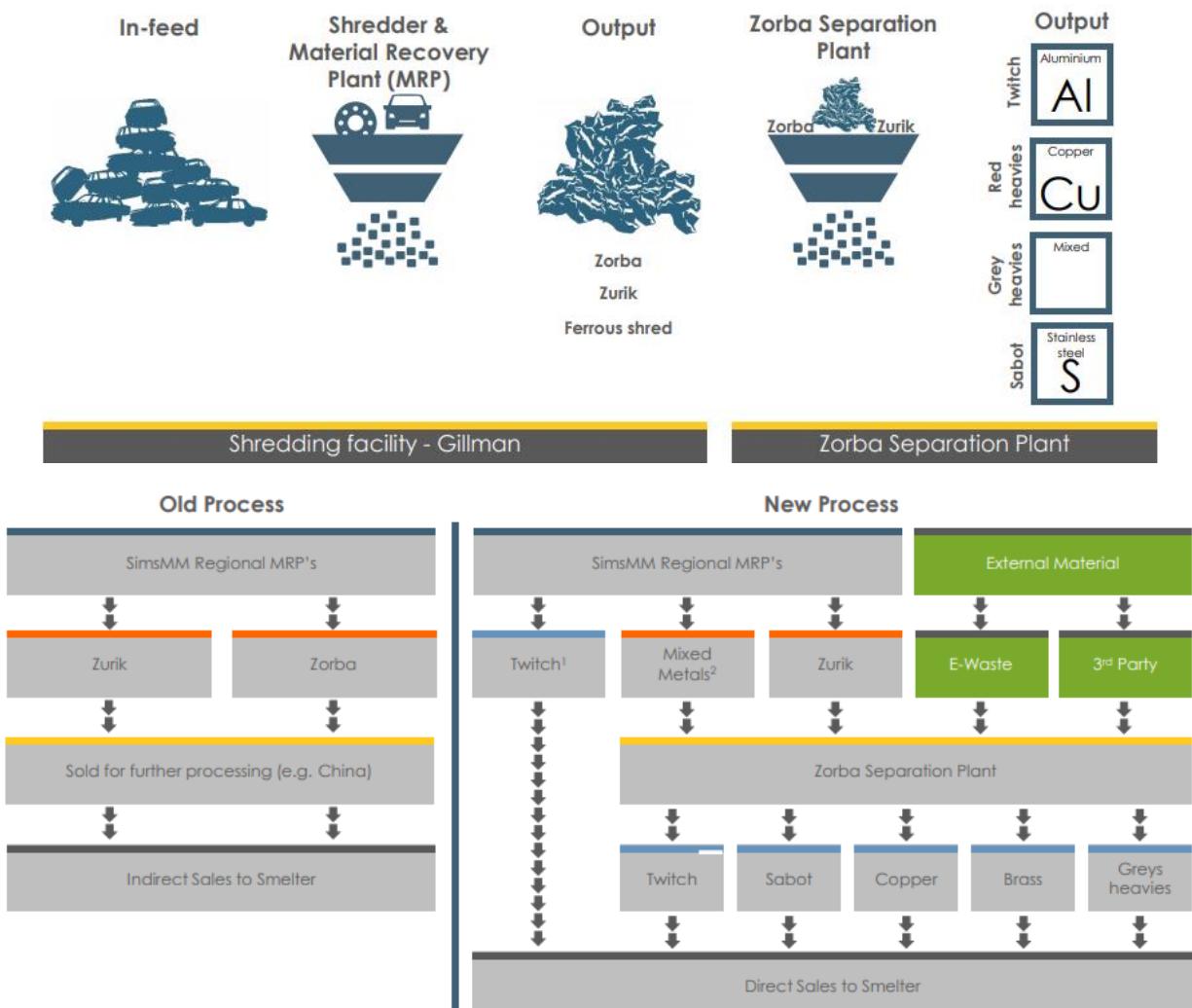


Sims Metal Management

Economic moats revolve around the SIM ecosystem

Ferrous & Non-Ferrous Metals

- Zorba Separation Plant, national facility to upgrade Zorba and Zurik into smelter ready products
- Solves future demand uncertainty for semi-processed metals, increase in non-ferrous sales and direct sales to smelters



Sims Metal Management

Economic moats revolve around the SIM ecosystem

E-Recycling

- First-mover advantage in IaaS, providing metal recycling, component resale and security governance
- Already established business model, with closed-loop hardware recycling creating a circular economy
- E-Recycling business model is ready for scale and overpassing traditional shredding options



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Sims Metal Management

Economic moats revolve around the SIM ecosystem

The past, present and future of recycling

- Sims has business models, capital budgeting plans, expansion methods and R&D pipelines to succeed 30 years into the future
- Megatrends analysis is a reflection of Sims current and future strategy, helping them retain and grow market share

Area	Category	Megatrends	Impact to Sims
 Social  Environmental  Economic / Business  Technological  Political	Climate Change	Natural disasters amore frequent and violent driven by rising CO ₂ emissions	Increased push towards recycled materials to reduce carbon emissions
	Waste	Global waste will increase Advanced materials will change the nature and composition of goods Nuclear reactor decommissioning will generate radioactive waste to be handled Trade in waste will decline with emphasis placed on management, recycling and reuse There will be less plastic pollution with the advent of bio plastics	Higher landfill costs and need for solutions Increasing value of materials in waste streams and higher importance on separation Need for development of economic solutions Material separation will occur in the domestic market of material origin Declining volume of plastic materials for processing (Municipal)
	Water	Increased demand and declining availability of freshwater in megacities Increased pollution of global oceans	Need for development of economic solutions Need for development of economic solutions
	Energy	Renewables will make up to 50% of the energy capacity growth by 2040 Energy storage & peer-to-peer (P2P) energy trading will revolutionise traditional utilities	Increased supply of renewables risk cuts to government support from carbon permit sales Potential for easier sale of and purchase of energy at lower prices
	Resource Sustainability	Declining availability of low cost & high grade mines across all commodities and minerals Landfills mined for resources & energy	Higher prices across all commodities and improved economics for material recovery Increased opportunities for material recovery

Risks

*How Sims is well equipped
with operational risks*



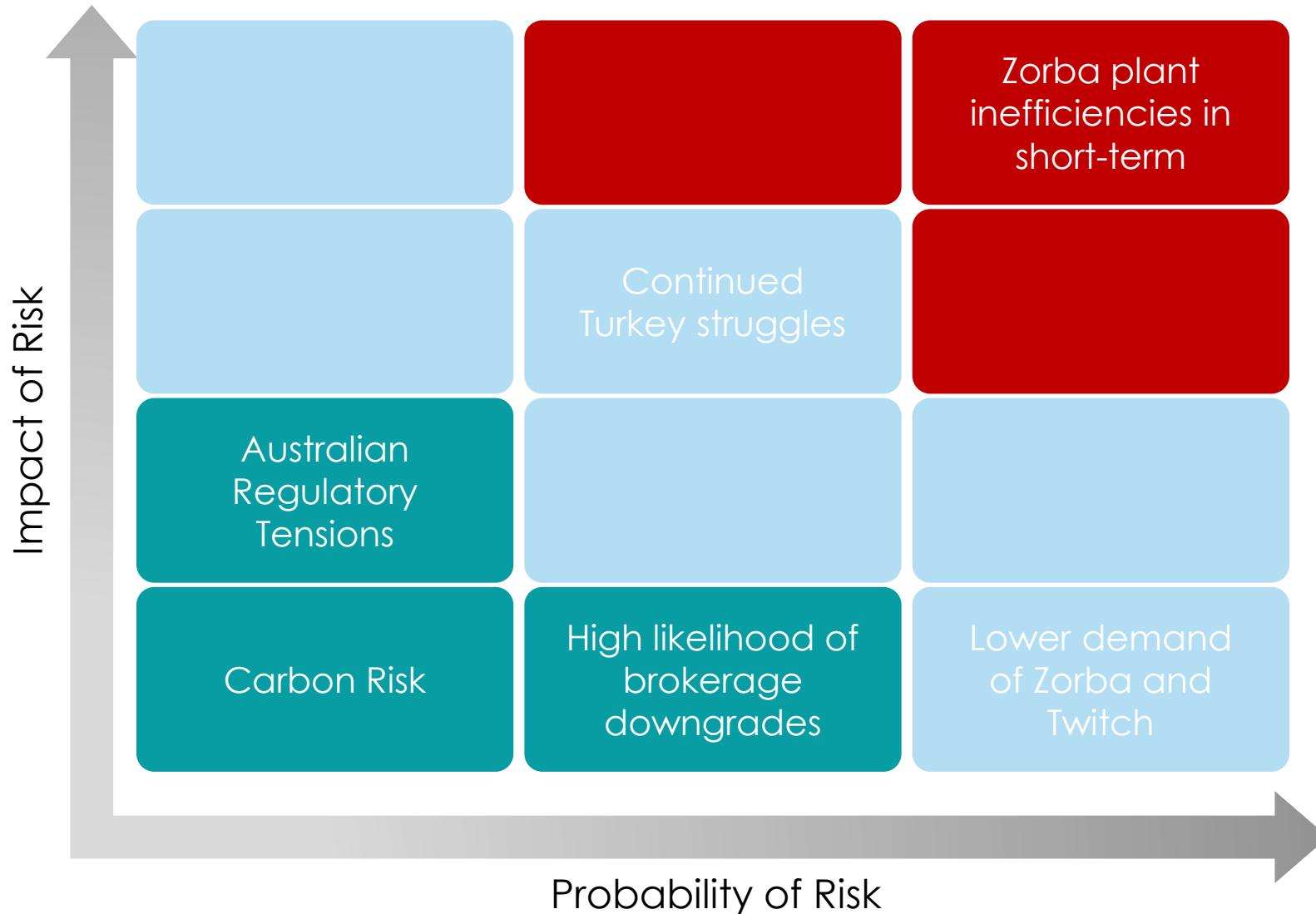
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Risks that are mitigated

Risks	Mitigations
<ol style="list-style-type: none">1. Significant changes in commodity prices or increased variance2. Consumer demand shifting to higher quality ferrous and non-ferrous metals3. Increased national and international freight/shipping costs4. Increasing complexity of materials in goods5. Weak cash and working capital movements	<ol style="list-style-type: none">1. Short-term fluctuations, accounted for in Cash and Cash Equivalents2. Zorba Separation Plant enabling the separation and processing of higher quality products3. Typically recoverable through managing the buy price of metals4. Zorba Separation Plant enabling the separation and processing of higher quality products5. Worst case scenarios for cash management, natural hedges in relation to cash flow movements

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Risks that are not mitigated





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Appendices

Sims Metal Management

Appendices Overview

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2. [Statement of Financial Position](#)
3. [Statement of Cash Flows](#)
4. [COVID-19 Impact and Response](#)
5. [ANZ + NA Competitors](#)
6. [Asset Efficiencies](#)
7. [Growth Strategy & CAPEX placement](#)
8. [Downside Scenario](#)
9. [Working Capital Management](#)
10. [Employee Health & Safety](#)

Sims Metal Management Statement of Comprehensive Income

Consolidated Statements of Comprehensive Income

For the year ended 30 June 2019

	Note	2019 A\$m	2018 A\$m
Profit for the year		152.6	203.5
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss:</i>			
Changes in the fair value of cash flow hedges, net of tax	20	0.8	(2.2)
Foreign exchange translation differences arising during the period, net of tax	20	69.1	62.0
Recycling of foreign currency translation reserve on increase in ownership interest of joint arrangement, net of tax		—	(1.3)
<i>Item that will not be reclassified to profit or loss:</i>			
Re-measurements of defined benefit plans, net of tax		(5.8)	2.9
Other comprehensive income for the year, net of tax		64.1	61.4
Total comprehensive income for the year		216.7	264.9

The consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

3 – REVENUE AND OTHER INCOME

	2019 A\$m	2018 A\$m
Sales revenue		
Ferrous secondary recycling	4,505.4	4,381.6
Non-ferrous secondary recycling	1,271.4	1,215.6
Recycling solutions	746.5	758.4
Secondary processing and other services	116.7	92.4
	6,640.0	6,448.0
Other revenue		
Interest income	1.2	1.9
Rental and dividend income	9.0	8.0
	10.2	9.9
Total revenue		
	6,650.2	6,457.9
Net gain on commodity derivatives	10.4	—
Net foreign exchange gain	1.2	—
Net gain on disposal of property, plant and equipment	5.4	1.4
Gain on acquisition of interest of a joint arrangement	—	10.1
Net gain on revaluation of financial assets at fair value through profit or loss	0.4	0.5
Government grants	2.5	1.0
Insurance Recoveries	16.5	—
Third party commissions	3.4	1.4
Management Fees	1.7	2.1
Other	6.1	4.9
Total other income		
	47.6	21.4

Sims Metal Management Statement of Financial Position

Consolidated Statements of Financial Position

As at 30 June 2019

	Note	2019 A\$m	2018 A\$m
Current assets			
Cash and cash equivalents	17	382.9	339.1
Trade and other receivables	8	386.7	461.7
Inventories	9	442.8	567.0
Other financial assets	16	17.5	18.9
Assets classified as held for sale	31	0.1	2.1
Total current assets		1,230.0	1,388.8
Non-current assets			
Investments in joint ventures	24	312.7	267.4
Other financial assets	16	18.1	16.7
Property, plant and equipment	10	1,267.2	1,155.8
Retirement benefit assets	15	2.7	7.7
Deferred tax assets	12	160.9	166.8
Intangible assets	11	193.8	198.6
Total non-current assets		1,955.4	1,813.0
Total assets		3,185.4	3,201.8
Current liabilities			
Trade and other payables	13	536.0	645.1
Borrowings	18	0.2	1.6
Other financial liabilities	16	2.5	6.5
Current tax liabilities		19.5	30.4
Provisions	14	100.5	110.8
Total current liabilities		658.7	794.4
Non-current liabilities			
Payables	13	13.8	13.6
Borrowings	18	35.2	39.4
Deferred tax liabilities	12	115.2	89.1
Provisions	14	60.9	75.0
Retirement benefit obligations	15	2.9	1.6
Total non-current liabilities		228.0	218.7
Total liabilities		886.7	1,013.1
Net assets		2,298.7	2,188.7
Equity			
Contributed equity	19	2,750.2	2,767.8
Reserves	20	236.3	147.6
Accumulated deficit	20	(687.8)	(726.7)
Total equity		2,298.7	2,188.7

The consolidated statements of financial position should be read in conjunction with the accompanying notes.

Sims Metal Management Statement of Cash Flows

Consolidated Statements of Cash Flows

For the year ended 30 June 2019

	Note	2019 A\$m	2018 A\$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		6,860.6	6,555.1
Payments to suppliers and employees (inclusive of goods and services tax)		(6,473.5)	(6,265.6)
		387.1	289.5
Interest received		1.2	1.9
Interest paid		(6.5)	(8.4)
Insurance recoveries		15.8	—
Dividends received from joint ventures	24	23.4	29.2
Income taxes paid		(60.9)	(60.1)
Net cash inflows from operating activities	17	360.1	252.1
Cash flows from investing activities			
Payments for property, plant and equipment		(197.1)	(176.1)
Payments for businesses, net of cash acquired	22	(9.4)	(56.3)
Payments for increase in ownership interest of joint venture		—	(38.4)
Payments for other financial assets		(3.2)	(2.9)
Proceeds from sale of property, plant and equipment		6.1	4.6
Proceeds from sale of assets held for sale		7.2	4.7
Proceeds from sale of other financial assets		2.3	1.9
Proceeds from repayment on third party loans		—	0.1
Net cash outflows from investing activities		(194.1)	(262.4)
Cash flows from financing activities			
Proceeds from borrowings		1,613.1	854.9
Repayment of borrowings		(1,617.2)	(817.9)
Fees paid for loan facilities		(0.2)	—
Repayment of finance leases		(1.6)	(2.2)
Payments for ordinary shares bought back	19	(19.3)	—
Proceeds from issue of ordinary shares		1.7	35.4
Dividends paid	6	(107.9)	(106.8)
Net cash outflows from financing activities		(131.4)	(36.6)
Net increase/(decrease) in cash and cash equivalents		34.6	(46.9)
Cash and cash equivalents at the beginning of the financial year		339.1	378.5
Effects of exchange rate changes on cash and cash equivalents		9.2	7.5
Cash and cash equivalents at the end of the financial year	17	382.9	339.1

The consolidated statements of cash flows should be read in conjunction with the accompanying notes.

Sims Metal Management

COVID-19 Impact + Response

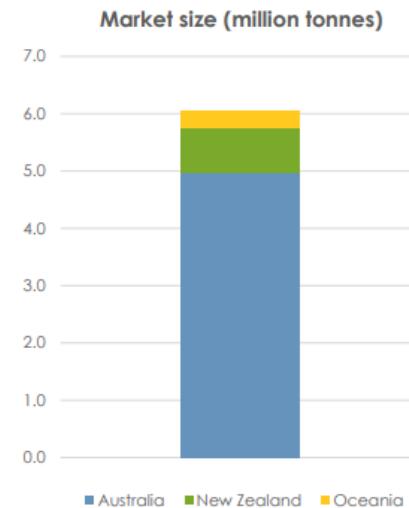
COVID-19

- Sims has stopped taking third-party scrap in UK
- Sims Pacific Metals branches closed until 20th of April
- Excess inventories of processed metals are rising fast without any shipping
- Aluminium prices are decreasing

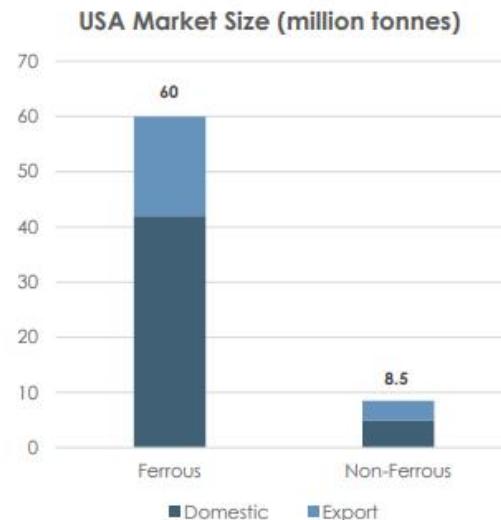
COVID-19 Response

- Prices are indeed trading at four-year lows, but this isn't the same lows as the GFC
- Suppliers of car-makers are still taking deliveries, other consumers are starting to request more primary metal to compensate for decline in scrap supply
- Typically recoverable through managing the buy price of metals
- Dividend is still going to be paid out, Sims has the cash reserves to weather this out

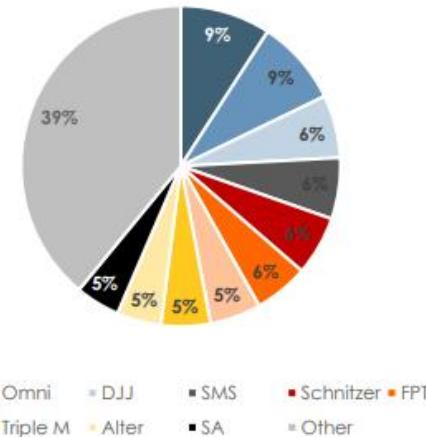
Sims Metal Management Competitors



Estimated Australian market share by volume

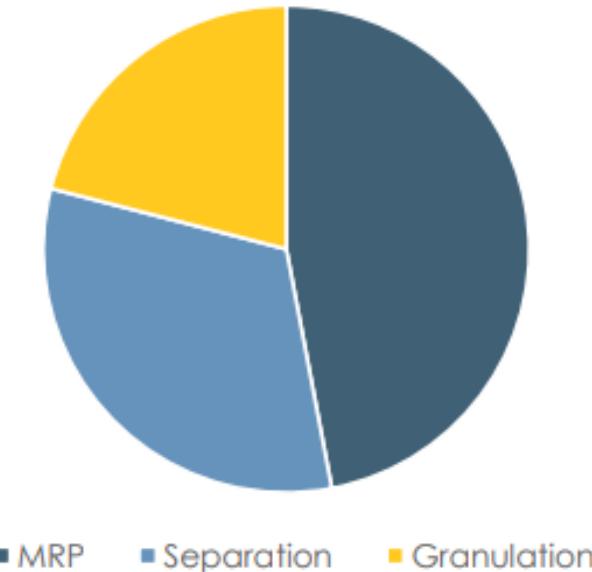


Estimated USA Market Share by Volume



How Sims is becoming more effective

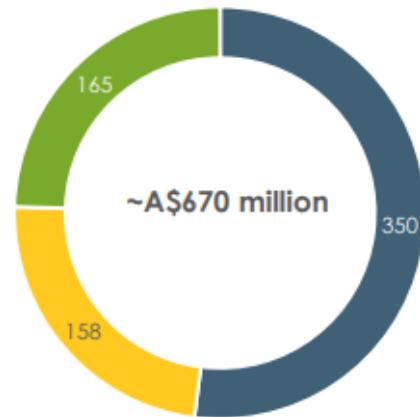
\$27 million FY19 EBIT from quality initiatives



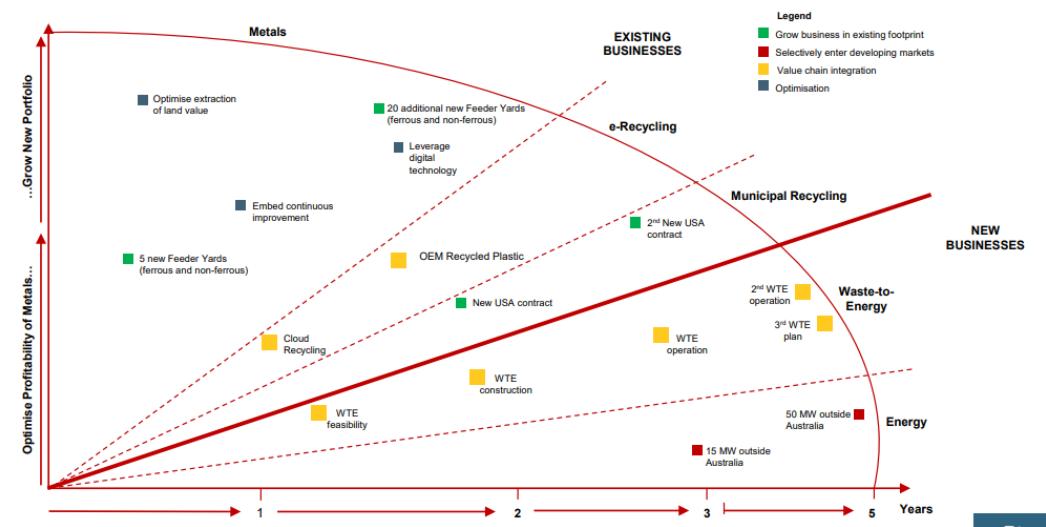
- Operation of copper granulation and zorba separation plants providing geographic and customer optionality for differentiated product
- Furnace ready twitch/heavies product from zorba separation plant provides price premium
- Flexibility to adjust product output depending on customer needs

Sims Metal Management Growth Placement & CAPEX

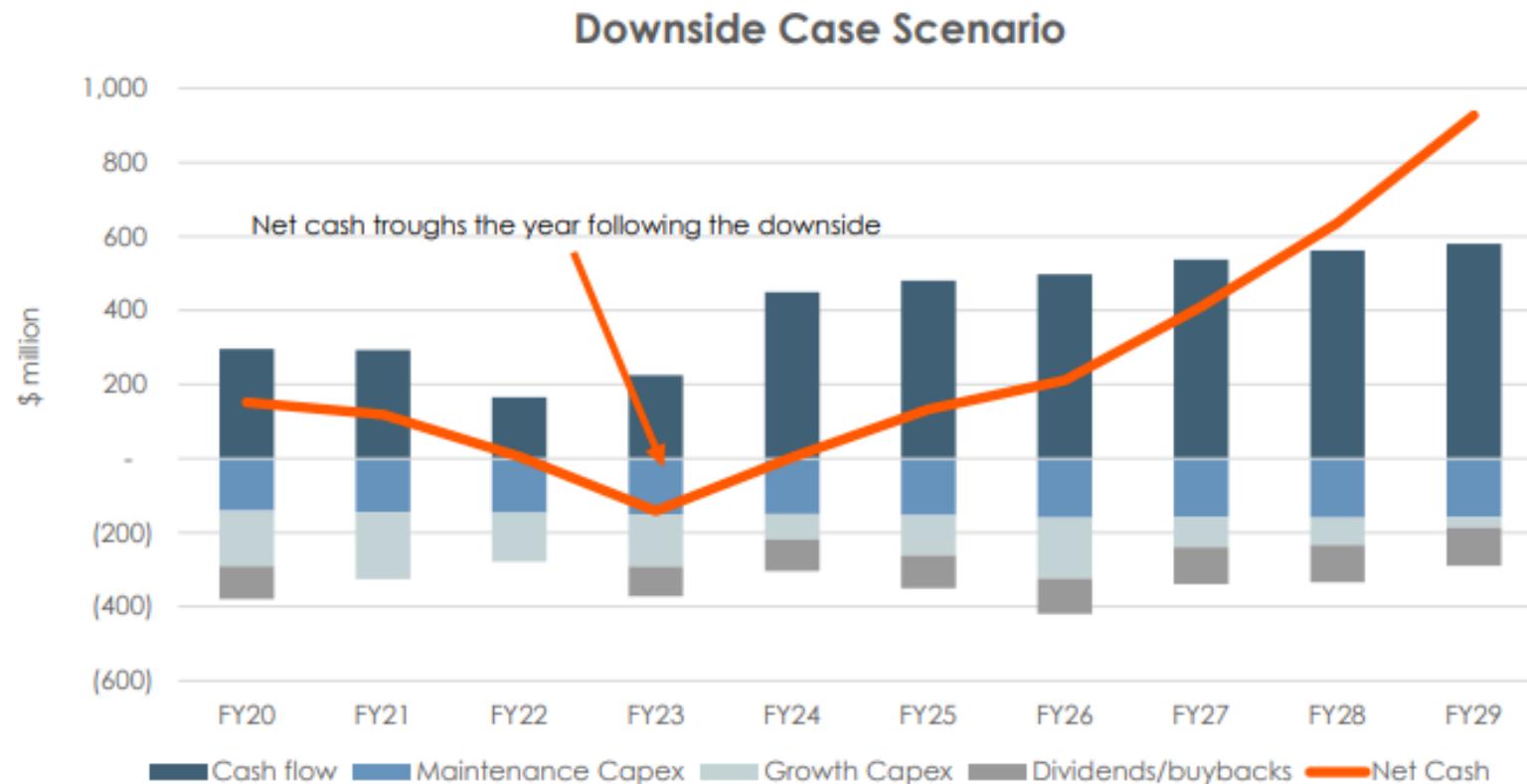
Scenario Forecast Growth
Capex FY20-FY24



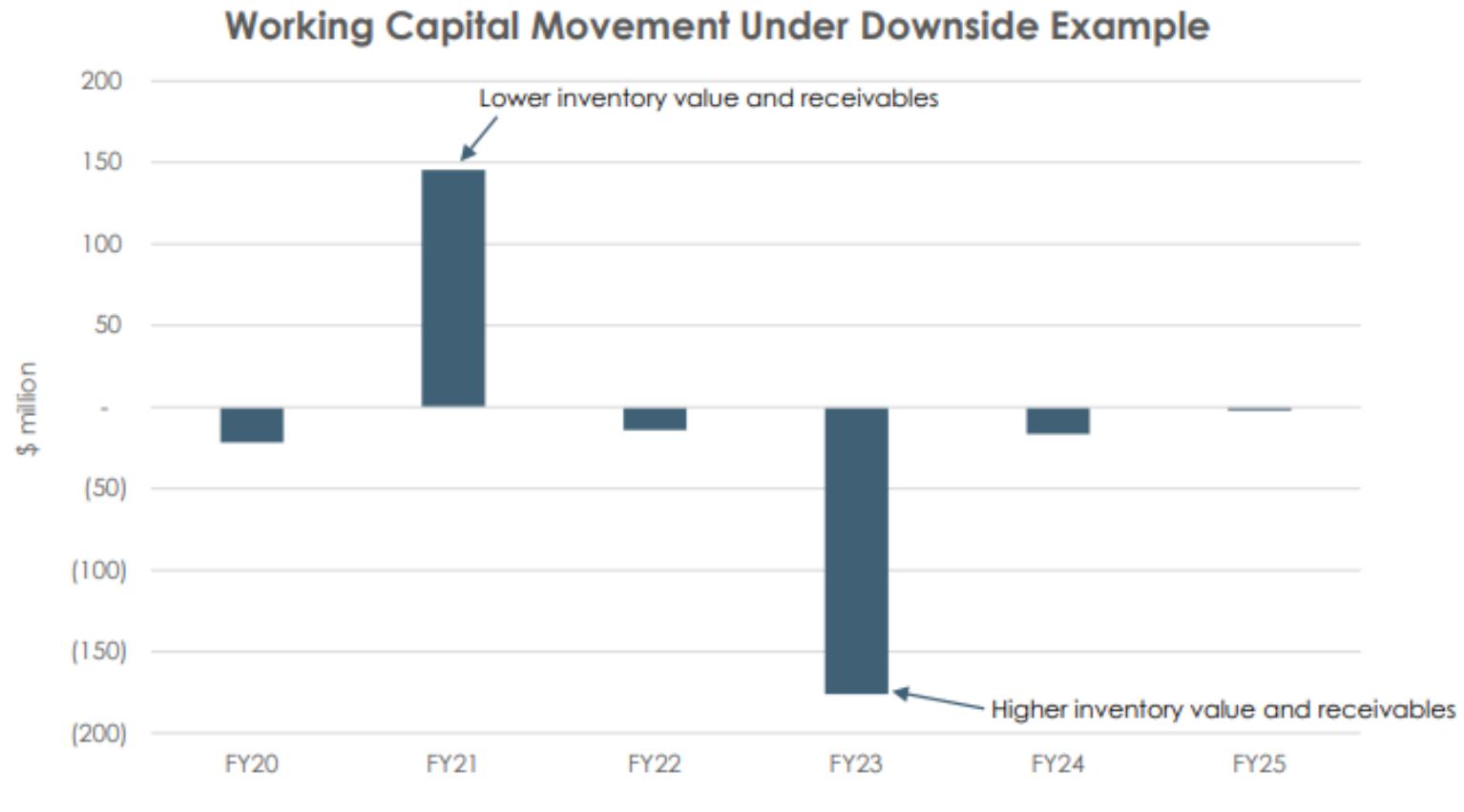
■ North America Metals ■ Sims Waste to Energy ■ Sims Energy



Sims Metal Management Downside Scenario



Sims Metal Management
Working Capital & Natural Hedging



Sims Metal Management

Employee Health & Safety

Employee Health & Safety

Global commitment for zero harm today



¹⁾ Defined as total recordable injuries x 200,000 divided by number of hours worked.

- Safety remains the most important priority for both our employees and the community
- After nearly a decade without a fatality, there were two fatalities in FY19. Immediate actions:
 - Eight weeks of stand-down meetings covering key risks and controls
 - Assessment and continuous improvement of key site traffic plans and maintenance activities
- Global Perception Safety Survey Company-wide underway. Followed by a deep dive into selected sites with both high and low safety perception
- An increase in risk assessments and safety self-audits conducted in FY19, 1,361 and 112,506 respectively, compared to FY18



6