# Milton
CORPORATION LIMITED



## ASX | Media Release

23 July 2021

# Milton reports record net tangible assets (NTA) per share of $5.50 and a final fully franked dividend of 8.0 cents per share.

- Total portfolio return of 33.2% in FY21, outperforming the All Ords Accumulation index
- Strong income recovery in 2H21 with a 17.8% increase in dividend income vs PCP
- FY21 Net profit after tax of $92.4 million on total investment revenues of $103.5 million
- Fully franked final dividend of 8.0 cps and full year fully franked dividends of 13.75 cps
- Previously announced proposed merger with Washington H Soul Pattinson (WHSP) subject to shareholder vote later this year, with Scheme Booklet to be dispatched to Milton shareholders in August
- Total shareholder returns for FY21 of 59.1%, in part reflecting strong Milton and WHSP share price performance post the announcement of the proposed merger.

Milton Corporation Limited (ASX:MLT) reported total assets at 30 June 2021 of $3.7 billion, up from $2.9 billion at 30 June 2020, with NTA per share at 30 June 2021 of $5.50.

Milton's total portfolio return for the 12-month period to 30 June 2021 was 33.2%, outperforming the All Ordinaries Accumulation index return of 30.2%. Milton reported a total shareholder return for the 12-month period to 30 June 2021 of 59.1%. The above measures exclude the benefits of franking credits.

Milton also announced today that it would pay a fully franked final dividend of 8.0 cents per share on 14 September 2021. Milton's dividend reinvestment plan has been suspended due to the proposed merger with WHSP and all shareholders will be paid their dividend in cash.

Full year ordinary fully franked dividends paid to shareholders in relation to FY21 earnings will thus be 13.75 cents per share. This represents a payout ratio of 102.9% of underlying profit. Milton's Board uses underlying profit to determine ordinary dividends due to the volatility of special dividend income.

Milton's total investment revenues, which include special dividends, were $103.5 million for the 2021 financial year. Milton's net profit after tax for the year ended 30 June 2021 declined by 21.0% to $92.4 million. Milton's underlying profit for the year, which excludes special dividends, declined by 19.1% to $90.0 million.

Milton's underlying earnings per share for the full year fell by 19.4% to 13.4 cents while earnings per share fell 21.3% to 13.7 cents per share.

Whilst dividends from Milton's diversified portfolio were sharply lower in the first half of FY21 due to COVID related reductions, dividends in the second half of FY21 increased by 17.8% from the second half of 2020 as economies reopened and company earnings recovered.

Reduced interest was received on Milton's cash balances due to lower term deposit rates. Milton's property joint ventures performed well with profits up 246% from 2020 as sales volumes increased materially.

Milton's Managing Director, Mr. Brendan O'Dea said, "We are pleased to see the strong recovery in the portfolio in the second half of FY21 in terms of both dividend income and capital growth. We made transformative changes to the portfolio in the 2020 financial year and those changes contributed to Milton's 2021 outperformance. Importantly Milton remained invested and added selectively to the portfolio during the volatility in the first half of FY21."

"We note that conditions remain uncertain but as long-term investors Milton will continue to seek opportunities to refine the portfolio and add new companies to generate long-term income and capital growth". Mr O'Dea added.

Milton's management expense ratio (MER) was 0.14%, and Milton charges no management or performance fees. Milton remains one of the lowest cost professionally managed vehicles available to investors.

## PORTFOLIO INVESTMENTS & RETURNS

Equity assets at 30 June 2021 were $3.6 billion. Cash balances were $79.1 million reduced from $114.1 million at 30 June 2020. Joint venture investments are held on balance sheet at $23.8 million, Milton continues to have no debt.

After a transformative 2020 financial year, the 2021 financial year was less active in terms of portfolio changes with $79.8 million added to new and existing equity investments. Investments were increased in Johns Lyng Group, Magellan Financial Group, Amcor PLC, Pro Medicus, Carsales.com, EQT Holdings, Coles Group, Pendal Group, IOOF Holdings and Cleanaway Waste Management. A new investment was made in IPH.

$43.2 million of portfolio sales were made in 2021 and included the complete disposals of Milton's investments in Coca Cola Amatil (due to takeover), QBE Insurance Group and Sims. Milton's Investment in the Charter Hall Long WALE REIT was reduced.

During the year Woolworths Limited demerged its hotel business Endeavour Group Limited. As is its practice, Milton recognized the transaction through its capital account as it is non-cash. We note that certain industry peers will record this as a demerger dividend through profit and loss. The gain on demerger taken to reserves is approximately $16.1 million.

Mr O'Dea said, "We are pleased to see the strong performance of the new investments that Milton has added to the portfolio over the last 18 months. Whilst Milton's income was impacted in the short term due to a reduction in certain of our bank shareholdings in 2020, we believe that shareholders will enjoy stronger income and capital growth over the long term".

## PROPOSED SCHEME OF ARRANGEMENT WITH WHSP

On 22 June 2021, Milton announced a proposed merger with W H Soul Pattinson (WHSP) where WHSP would acquire 100% of the share capital of Milton via Scheme of Arrangement.

The offer consists of a scrip consideration reflecting a 10% premium to Milton's NTA before tax (adjusted for any final and special dividends), capped at $31 per WHSP share.

In addition to the 8 cents final dividend announced today, Directors expect to announce a fully franked special dividend of approximately 37 cents per share payable if the Scheme of Arrangement is approved. In that event, shareholders will also be eligible for the expected WHSP final dividend.

The Independent Milton Directors consider the Scheme to be in the best interests of Milton Shareholders having regard to the attractive premium to net tangible assets offered to Milton Shareholders, the allowance for payment of fully franked dividends, the retention of Milton's existing management team and the diversified investment proposition created by combining Milton and WHSP, two well established investment companies with similar investment approaches.

| | 1H21 | 2H21 | FY21 | 1H20 | 2H20 | FY20 |
|---|---|---|---|---|---|---|
| | $m | $m | $m | $m | $m | $m |
| **Dividend income** including specials | 40.5 | 58.0 | 98.5 | 73.7 | 49.3 | 123.0 |
| **Capital growth** before provision for tax | 388.0 | 445.6 | 833.6 | (1.8) | (425.4) | (427.2) |
| **Total Return** | **428.5** | **503.6** | **932.1** | **71.9** | **(376.1)** | **(304.2)** |

Mr O'Dea said, "Milton's FY21 performance underscores the value of Milton's portfolio and dividend record, as well as highlighting opportunities for diversification in the merger. If the Scheme is approved, the combined group will be able to build on the legacies and the skills of both the Milton and WHSP investment teams to pursue capital and income growth and invest for the benefit of our combined shareholder bases."

**OUTLOOK**

Milton forecasts FY22 earnings to be higher than FY21 as dividend payments are expected to increase from its diversified portfolio of 75 companies. We expect stronger dividend production particularly from Milton's financial services and resource sector investments.

Valuations in the equity market are at historically high levels but forward multiples are showing signs of moderation due to robust future earnings expectations. Elevated valuations appear to be driven primarily by low interest rates. We do not expect cash rates to increase sharply in the short term, but note that long-term interest rates have begun to rise in certain markets due to inflationary concerns.

Mr O'Dea said, "Asset markets remain very buoyant with elevated valuations. We believe that this is primarily a function of low interest rates and surplus liquidity across developed economies. The successful vaccine programs in most OECD countries have contributed to confidence as economies re-open. Central banks have reiterated their support with Australia's RBA guiding to low rates for the medium term. Company earnings have recovered sharply and most key economic measures are strong and growing. This globally synchronised recovery provides a very favourable backdrop for equities.

"Notwithstanding this, we expect to see continued volatility as the COVID situation evolves and markets consider the future exit from accommodative policy settings. We will continue to ensure that we have the financial flexibility to invest should the right opportunities present."

"Should Milton's shareholders approve the proposed Scheme of Arrangement, we will look forward to working with the WHSP management team and together continue to pursue opportunities to invest for long-term income and capital growth" Mr O'Dea added.