

29 September 2021

Ebos Group Limited (EBO)

The company will hold its Annual Shareholders Meeting at **2.00pm Tuesday 19 October 2021**.

The location is **Addington Raceway & Events Centre, 75 Jack Hinton Drive, Christchurch**.

You can also join the meeting online at

<https://apps.online.computershare.com/MeetingsShareholderWeb/FindMeeting?Country=NZ>

Company Overview

The company is the largest Australasian marketer, wholesaler and distributor of healthcare, medical and pharmaceutical products. It is also a leading Australasian animal care products marketer and distributor.

It employs 3,700 people; 72% in Australia and 28% in New Zealand at 63 locations. Healthcare comprises 86% of its business with animal care the other 14%.

Current Strategy

The company's strategy is to pursue a robust investment plan designed to strengthen its core business and target new opportunities that extend the Group's capabilities and enables it to deliver more for its stakeholders.

Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

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Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See comment below.
Director share ownership	G	Directors are not required to own shares
Executive Remuneration	A	See comments below.
Golden parachutes/handshakes	A	NZSA expects disclosure around whether such payments are offered.
Director Independence	G	Good disclosure
Board Composition	A	See comments below
Director Tenure	A	See below
ASM Format	G	Hybrid meeting.
Company Sec independence	A	Not disclosed

Directors Fees: While disclosure is generally clear, there is no disclosure as to whether retirement benefits or share options are available for Directors.

We note that Ebos is proposing an 11% increase in the Director Fee Pool at this meeting, comprising a 5% base increase with the remainder as headroom to allow for additional fees if required. The last increase was in 2019. While an independent appraisal has been carried out using a comparator peer group, NZSA feels there is a shortfall in the disclosure to shareholders as regards the *individual* fee levels for each comparator. We note the company describes the peer group as a ‘market comparator’, when it is perhaps more accurately described as a sample of comparable companies.

In discussion, the Chair noted that it wished to encourage Australian directors in future.

Executive Remuneration: NZSA notes the disclosure of measures associated with short-term incentive (STI) payments is limited to a single financial metric, being underlying profit before tax, with long-term incentive (LTI) awards linked to growth in earnings per share.

NZSA would prefer more fulsome disclosure of targets and the level of achievement that underpin both the STI and LTI awards, although the company does state the maximum entitlement for both STI and LTI. We note that the incentive structure allows a greater proportion of STI to be earned, with each incentive able to earn more than the base salary. NZSA policy is to incentivise a greater proportion of long-term performance, with total incentives to be comparable to base salary.

We also appreciate that Ebos chooses to disclose the notice periods associated with the CEO.

Board Composition: The Chair, Elizabeth Coutts, is also Chair of two other NZX-listed companies. NZSA policy is that Directors should not hold more than 5 roles with the Chair counting as 2 due to the additional work. We note that this represents a reduction in workload over the past 12 months for Ms Coutts, who has relinquished a significant Chair role at Ports of Auckland.

Stuart McLauchlan is also a director of Argosy Property and chair of Scott Technology (both NZX-listed companies) as well as a director of significant unlisted entities (including Scenic Circle Hotels). NZSA has discussed this situation with Mr McLauchlan previously. While we’re comfortable with his ability to manage existing workload, we would be concerned if he took on further governance roles.

We appreciate the clear disclosure around gender balance on the Board and Senior Executives.

We note that the company does not participate in the IoD’s “Future Directors Programme”, although Elizabeth Coutts supports the Programme individually through her previous association with the Institute of Directors (past-President). NZSA feels that given the status of Ebos as a listed entity, it would provide an effective experience for emerging directors.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that allow effective knowledge transfer in the event of succession, thereby minimising the risk to investors and supporting ongoing board renewal. Appointment dates for Ebos’ directors show that succession should be able to be managed effectively. We also note that the company has appointed 3 new directors over the past two years.

Nonetheless, we note the Chair, Elizabeth Coutts, has served since 2003 while Sarah Ottrey has served since 2006. NZSA policy is that a Director should not serve for more than nine years to allow for refreshment and renewal.

NZSA would expect some disclosure as to the intentions of these individuals during the remainder of their term.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Generally good disclosure, however not disclosed if the Lead Audit Partner intends to be at the ASM.
Audit rotation	A	See comments below.

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years it does not disclose if the Audit Firm is rotated at 10 years. Like many other companies on the NZX, it also does not disclose the appointment dates of the Lead Audit Partner or the Audit Firm.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure
Political donations	A	Not disclosed if donations were made.

NZSA policy is that companies should not make donations to political parties. We expect disclosure to this effect, even if none have been made.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	Good disclosure
Capital Raise process	n/a	There was no capital raising

Ebos' share price rose from \$24.00 to \$35.72 (as of September 20th) over the last 12 months – a 49% return. This compares favourably with the NZX 50 which increased by 15% in the same period. The Performance Factor for EBO is 3.32.

Metric	2021	2020	Change
Revenue	\$9,210m	\$8,766m	5%
Cost of Goods Sold	\$8,847m	\$8,432m	5%
NPAT ²	\$185.3m	\$162.5m	14%
EPS ¹	\$1.13	\$1.00	13%
Inventory Turnover	11.62	11.54	1%
PE Ratio	32	24	
Current Ratio	1.13	1.14	-1%
Debt Equity	1.81	1.86	-3%
Operating CF	\$298m	\$229m	30%
NTA Per Share ¹	\$0.62	\$0.27	131%
Dividend Per Share ¹	\$0.885	\$0.775	14%

¹ per share figures based off actual shares at balance date (not weighted average)

² Attributable to owners of the parent.

Pleasingly for EBO revenues were up in FY 21 to \$9.2B and subsequently NPAT was up 14% to \$185.3m which enabled the company to pay increased dividends of \$0.885 for the year. Dividends are fully franked in Australia but partially imputed in NZ.

EBO's profit meant that its EPS were \$1.13 and this places EBO on a PE of 32 compared with a PE of 24 the year before. The increase in PE is indicative of the market placing greater faith in EBO's ability to deliver sustained increased earnings in the future. Operating cashflows were up by 30% to \$298m.

In a presentation to market on the [18th August](#), EBO signalled a positive outlook with strong earnings growth likely to continue in FY22. The group's portfolio was also resilient through the Covid pandemic, but further lockdowns are evidence of material uncertainties. A performance update will be provided to shareholders at the Annual Meeting on 19 October 2021.

The balance sheet remains strong with a positive current ratio and a debt equity ratio at a manageable 1.81 (normally 1.81 is a high debt equity ratio, however this figure is inflated due to EBO's large trade and payables which are negated by large trade and receivables), meaning EBO is well positioned to

pursue growth opportunities should they wish to do so. EBO have non-current liabilities of \$666m compared to equity of \$1,406m.

Resolutions

1. To elect Dr Tracey Batten as an Independent Director

Dr Tracey Batten was appointed to the Board 1 July 2021 and is therefore required to offer herself for election. She is currently a Director of Medibank Private Limited, the Accident Compensation Corporation and the National Institute of Water and Atmospheric Research. She was previously a Director of Abano Healthcare Group Limited and various other healthcare related research institutes, charities and industry and government bodies.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect Elizabeth Coutts as an Independent Director.

Elizabeth Coutts was appointed to the Board 3 July 2003 and is the Chair. She is also Chair of Oceania Healthcare and Skellerup Holdings, and Member, Marsh New Zealand Advisory Board. She is a former Chair of Ports of Auckland Limited, Meritec Group, Industrial Research, Life Pharmacy, and former Deputy Chair of Public Trust. She has previously held directorships of Air New Zealand, the Health Funding Authority, Sanford, and the Yellow Group of Companies.

NZSA policy is that a Director should not hold more than 5 NZX or equivalent roles with the Chair counting as 2 roles. This is to ensure they have the capacity to carry out their governance duties. We have discussed this with Ms Coutts previously and remain comfortable with her ability to carry out her current roles. We note that her current workload represents a reduction in governance roles over the previous 12 month period.

We note that Ms Coutts will have served 21 years at the end of this term. It is internationally recognised that a Director ceases to be Independent after they have served 12 years.

We note the company's succession planning disclosure that there are "*directors with long tenures at the Company who have indicated an intention to retire over the next few years*". While Ms Coutts no doubt brings a unique set of skills to the Board, the risk to shareholders of an effective transfer of knowledge increases as time passes.

Whilst we will support her re-election, we would be unable to support a further term and expect the Board to disclose succession intentions and appoint a replacement sometime during this term, as per the company's statement above.

Given this statement, we will vote undirected proxies **IN FAVOUR** of this resolution.

3. To re-elect Peter Williams as an Independent Director.

Peter Williams was appointed to the Board in July 2013. He is also a director of Green Cross Health. He was formerly an executive of The Zuellig Group and has extensive experience in the healthcare industry in Australasia and Asia. If re-elected, he will have served 11 years at the end of that term. We note the company's succession planning disclosure that there are "*directors with long tenures at the Company who have indicated an intention to retire over the next few years*".

Given this statement, we will vote undirected proxies **IN FAVOUR** of this resolution.

4. To increase the Directors Fee Pool by \$155,000 from \$1,410,000 to \$1,565,000.

The full details are set out in the Notice of Meeting. The current fee pool was approved by shareholders at the 2019 ASM. NZSA policy is that Boards should review their fee pool on a regular basis to ensure it is appropriate.

The Board has commissioned KPMG Australia to prepare an [Independent Report](#) and a link to this is in the Notice of Meeting. Whilst the Report sets out a list of comparator Australian and New Zealand companies it does not set out the Fees paid by those companies. NZSA expects Independent Reports to be fulsome and complete to allow shareholders to make an informed decision. We recognise that Ebos is likely to require directors with Australian experience given the nature of its business.

We note the proposed increase includes provision for a "Special Exertion fee pool". NZSA does not approve of these payments. We believe Fees should be a fixed amount; however we note the intention is to make full disclosure if these payments are made.

We will vote undirected proxies **IN FAVOUR** of this resolution – but would expect a higher standard of disclosure in future independent reports in future.

5. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://www.investorvote.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **2.00pm Sunday 17 October 2021.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY

MAKE YOUR VOTE COUNT!

Details on the NZSA website.

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

The Team at NZSA