New Zealand Shareholders Association Inc.
NZSA®
Many Investors, One Voice

13 October 2022

Ebos Group Limited (EBO)

The company will hold its Annual Shareholders Meeting at **2.00pm Thursday 27 October 2022.**

The location is **Park Hyatt Auckland, 99 Halsey Street, Auckland.**

You can also join the meeting online here.

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 5000 people in 109 locations in Australia, New Zealand, and Southeast Asia. Healthcare comprises 87% of its business with animal care the other 13%.

In December 2021, the company announced a large acquisition with the $1.167 billion purchase of LifeHealthcare Group, a leading independent distributor of third-party medical devices, consumables, capital equipment and in-house manufactured allograft material in Australia, New Zealand, and Southeast Asia.

In February 2022 Nick Dowling resigned from the Board. In September 2022 the company announced Mark Bloom had been appointed to the Board.

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.

New Zealand Shareholders Association Inc.

NZSA®

Many Investors, One Voice

Disclaimer

To the maximum extent permitted by law, New Zealand Shareholders Association Inc. (NZSA) will not be liable, whether in tort (including negligence) or otherwise, to you or any other person in relation to this document, including any error in it.

Forward looking statements are inherently fallible
Information on www.nzshareholders.co.nz and in this document may contain forward-looking statements and projections. For any number of reasons, the future could be different – potentially materially different. For example, assumptions may be wrong, risks may crystallise, unexpected things may happen. We give no warranty or representation as to any future financial performance or any other future matter. We may not update our website and related materials for changes.

There is no offer or financial advice in our documents/website
Information included on www.nzshareholders.co.nz and in this document is for information purposes only. It is not an offer of financial products, or a proposal or invitation to make any such offer. It is not financial advice and does not take into account any person's individual circumstances or objectives. Prior to making any investment decision, NZSA recommends that you seek professional advice from a licensed financial advice provider.

There are no representations as to accuracy or completeness
The information, calculations, and any opinions on www.nzshareholders.co.nz and in this document are based upon sources believed reliable. The NZSA, its officers and directors make no representations as to their accuracy or completeness. All opinions reflect our judgement on the date of communication and are subject to change without notice.

Please observe any applicable legal restrictions on distribution
Distribution of our documents and materials on www.nzshareholders.co.nz (including electronically) may be restricted by law. You should observe all such restrictions which may apply in your jurisdiction.

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

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	Excellent disclosure.
Director share ownership	G	Directors not required to own shares.
Executive Remuneration	G	See below.
Golden parachutes/handshakes	G	See comment below.
Director Independence	G	A majority of Directors are independent.
Board Composition	A	See below.
Director Tenure	A	See below.
ASM Format	G	Hybrid. See below.
Independent Advice for the Board	G	See below.

Executive Remuneration: The CEO is paid a base salary and a short-term incentive (STI) both in cash and a long-term incentive (LTI) by way of cash and performance share rights.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with each component of the award.

The methodology for both STI and LTI is well disclosed. NZSA notes that the Board exercised discretion to increase the STI payable to its CEO for FY21. NZSA supports board discretion for both 'upside' and 'downside' outcomes in appropriate circumstances. The company also discloses the expected outcome for its FY22 year (payable in FY23), with the CEO awarded the maximum STI opportunity.

NZSA notes the 'slight' weighting towards LTI under this framework. We prefer a greater weighting towards LTI to better align with the long-term interests of shareholders. We also prefer some recognition of absolute shareholder return within the LTI assessment award framework.

Last, we recognise that Ebos operates in an Australasian market for executive talent. Nonetheless, an incentive opportunity of 4x base remuneration does not meet NZSA policy.

Golden parachutes/handshakes: NZSA is pleased to see the clear disclosure offered by Ebos in relation to the severance terms associated with the CEO, highlighting a 12 month notice period by the company with 12 months notice also required from the CEO.

The termination payment provision is also disclosed as 12 months, together with an 18 month restraint-of-trade, providing a disclosed 'cap' on the total possible payment in the event of a 'no notice' termination.

Board Composition: Ebos provides thorough disclosure of the skill sets associated with individual Directors and their relationship to the overall 'collective' skills required to govern the company, within a separate document available on the company's website.

The company does not participate in the IoD's Future Director programme designed to develop and mentor the next generation of Directors. NZSA expect NZX50 companies to participate as part of a responsibility to develop and mentor the next generation of Directors.

Notwithstanding our comments below, the nature of the company's board indicates a commitment to thought, experiential and social diversity, with relevant experience for Ebos.

We note the Chair, Liz Coutts, is also Chair of Oceania Healthcare and a recent appointee as Chair of a significant non-listed entity (Voyage Digital, better known as 2 Degrees). NZSA prefers Directors to have no more than five roles with the Chair counting as two due to the additional time commitment.

Ms Coutts has been very conscious of her workload in recent times. NZSA does not expect her to take on further board roles.

Director Tenure: NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

We note the Chair has served since 2003, with Sarah Ottrey serving on the Board since 2006. We believe this is a key factor in determining independence. Two further directors have been appointed in 2013, with the remaining three directors appointed between 2019-2022. This implies the potential for a high degree of director succession in the near future, with some risk to the balance between institutional knowledge and future innovation.

Discussions with the company have indicated that this is a key focus area for the Board.

Independent Advice for the Board: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

Ebos offers good disclosure as to its risk management and governance processes, as well as thorough disclosure of its strategic, business and financial risks and their mitigations within its Annual Report and Corporate Governance Statement. As we expect, there is good disclosure as to financial risks.

We note that the statement in the Board Charter that "*A director may obtain independent advice at the expense of the Company on issues related to the fulfillment of his or her duties as a director, subject to obtaining the approval of the Audit and Risk Committee prior to the incurrence of any advisory fees.*"

The Board also undertakes a significant programme of site visits, although it is unclear as to the extent to which internal assurance staff have unfettered access to the Board.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosures
Audit rotation	A	See below.

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules, it does not disclose if the Audit Firm is rotated at 10 years. Notwithstanding auditor tenure, NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

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.

Political Donations: NZSA policy is that companies should not make donations to political parties. We expect disclosure to this effect, even if there is no such donation to disclose.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	Good disclosure.
Capital Raise process	A	See below.
Takeover or Scheme	n/a	*n/a if no takeover*

Capital Raise process: The company raised capital by way of a Placement and Retail Offer to purchase LifeHealthCare in FY22. NZSA's preferred method is that companies respect existing shareholders by first offering a renounceable rights issue to allow shareholders to maintain their proportionality or derive some value from the sale of rights before utilising other raising options.

If other raising options are used, NZSA expects evidence to justify this and the impact on existing shareholders. We note that Ebos provides some justification on pg 104 of its Annual Report, referring to the timing of the need for capital over Christmas/New Year and the (assessed) lower discount to market price that was likely applicable as compared with a traditional rights issue, resulting in lower dilution for non-participating shareholders.

As a respected and credible company, NZSA does not believe that Ebos would have had any issue in raising its required capital by means of an entitlement offer, a position not always afforded to other listed entities.

We do accept that the time of year (rather than the timing of the transaction) offers some mitigation in relation to the availability of institutions and brokers to participate in a 'bookbuild' event.

Financial Summary: Ebos' share price rose from $35.20 to $38.05 (as of 27th September 2022) over the last 12 months – an 8% rise. This compares extremally favourably with the NZX 50 which declined by 14% in the same period. The capitalisation of EBO is $7.2b placing it 7th out of 130 companies on the NZX by size and makes it a large company.

Metric	**2022**	**2021**	**Change**
Revenue	$10,734m	$9,210m	17%
Cost of Goods Sold	$10,328m	$8,847m	17%
NPAT[2]	$203m	$185.3m	10%
EPS[1,3]	$1.07	$1.13	-5%
Inventory Turnover	10.84	11.62	-7%
PE Ratio	36	32	
Capitalisation	$7.2b	$5.8b	25%
Current Ratio	1.22	1.13	8%
Debt Equity	1.91	1.81	6%
Operating CF	$249m	$298m	-17%
NTA Per Share[1]	-$2.17	$0.62	n/a
Dividend Per Share[1]	$0.96	$0.885	8%

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

[2] *Attributable to owners of the parent.*

[3] *The EPS figure differs from that in the Ebos Annual Report, due to the use of a 'weighted average' methodology in the Annual Report. NZSA prefers the use of 'actual' shares on issue at balance date, particularly due to the capital raise undertaken during the year.*

Pleasingly for EBO, *revenues* were up by 17% in FY 22 to $10.7B and subsequently *NPAT* was up 10% to $203m which enabled the company to pay increased dividends of $0.96 for the year. *Dividends* are fully franked in Australia but partially imputed in NZ.

EBO's profit meant that its *EPS* were $1.07 which is a reduction on last years EPS of $1.13. During the year EBO raised capital and an additional 25.2 million shares were issued. Although profit was higher, this profit must be shared with a larger shareholder base and thus earnings per share declined by 5%. This reflects that the effects from utilisation of funds often takes time to flow through to profitability.

The market expects EBO to make good use of these funds and acquisitions made and have placed EBO on a higher *PE* of 36. The rise in PE is indicative of the market placing greater faith in EBO's ability to deliver sustained increased earnings in the future. This higher PE goes against the broader market trend of shrinking PE's. The PE of EBO is 36 compared to last year's 31.

Operating cashflows were down but very healthy at $249m. It must be noted that inventories rose by 43% and this will no doubt have contributed to lower cashflows. The *inventory turnover* ratio also declined slightly to 10.84.

The balance sheet remains strong with a positive *current ratio* and a *debt equity* ratio at a manageable 1.91 (normally 1.91 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. Although we note that the company took on an additional $722m of interest-bearing debt and total debt is now $1.37b.

Of interest, EBO have a negative *NTA* (-$2.17) after adding a substantial amount to their intangibles. Total intangibles are $2.4b and this figure is larger than their equity of $2.2b. Intangibles are all goodwill and an additional $1.15b of goodwill was acquired on acquisition.

In an outlook statement presented to market on 24th August the company stated that they are "pleased with the strong earnings growth in FY22 and we expect another year of profitable growth in FY23".

Resolutions

1. To elect Mark Bloom as an Independent Director.

Mark Bloom was appointed to the Board 16 September 2022 and is therefore required to offer himself for election He is currently a non-executive director of ASX listed Abacus Property Group, AGL Energy Limited and Pacific Smiles Group Limited. He was formerly Chief Financial Officer at ASX listed Scentre Group Limited from its formation in July 2014 through to his retirement in April 2019. Prior to the formation of Scentre Group Limited, he was the Deputy Group CFO of Westfield Group for 11 years.

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

2. To re-elect Stuart McLauchlan as an Independent Director.

Stuart McLauchlan was appointed to the Board in July 2019. and was last elected by shareholders on 15 October 2019. He is a chartered accountant, partner of GS McLauchlan & Co, and a Fellow of the New Zealand Institute of Chartered Accountants. He is currently chairman of Scott Technology Ltd and ADInstruments Ltd. He is a director of Argosy Properties Ltd as well as a number of private companies. He is also a governor of the New Zealand Sports Hall of Fame, a member of the Marsh New Zealand Advisory Board and a member of the Advisory Board to the Partridge Jewellers group. He was formerly a director of Ngai Tahu Tourism Ltd.

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

3. 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 Tuesday 25 October 2022.**

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

The Team at NZSA