

20 September 2022



### **Laybuy Group Holdings Limited (LBY)**

The company will hold its Annual Shareholders Meeting at **12 noon Friday 30 September 2022**.

It will be a virtual meeting. You can join the meeting [here](#).

#### ***Company Overview***

The company was founded by Gary Rohloff, his wife, and son in 2017 and listed on the ASX in 2020. As its name suggests, it offers 'buy now pay later' (BNPL) services to consumers. It has over 931,000 customers and 13,700 merchants in New Zealand, Australia, and the UK. Headquartered in Auckland it has offices in Sydney and London.

#### ***Current Strategy***

To focus on increasing and retaining quality customers and partnering with merchants.

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**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	A	See below.
Director share ownership	A	Not disclosed if Directors are required to own shares.
Executive Remuneration	R	See below.
Golden parachutes/handshakes	A	See below.
Director Independence	A	See below.
Board Composition	A	See below.
Director Tenure	G	See below.
ASM Format	A	Virtual only. See below.
Independent Advice for the Board	G	See below.

**Directors Fees:** The director fee pool and the total of actual payments made to directors is disclosed, however there is no disclosure as to whether directors are entitled to special exertion benefits or retirement benefits.

The annual report states that “No zero exercise price options (ZEPOs) were issued to the Non-Executive Directors or Managing Director during the financial year”. Directors have been offered ZEPO’s in previous years, which NZSA considers appropriate given the early-stage maturity of the company, but there is no disclosure of the details around the methodology or the dilutive impact on shareholders in the Annual Report. NZSA also expects clear disclosure that the value of any share-based payments are clearly described as being within the fee pool approved by shareholders.

**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 share options.

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 any awards.

There is limited disclosure of appropriate methodology details of the STI in the Annual Report, although the target outcome (20% base salary) and actual outcome (in terms of dollar payment) is disclosed. We note that the payment made in FY22 is close to the target opportunity, although this is likely to represent an FY21 performance outcome.

No LTI was paid in FY22. Again, however, there is no detail provided in terms of methodology leading to any award.

**Golden parachutes/handshakes:** Not disclosed if these or similar payments are offered. As the CEO is a founder and substantial shareholder we believe it is unlikely, however in the interests of transparency a disclosure should be made. The company has since confirmed to NZSA that no termination payments are payable.

**Director Independence:** There are two independent Directors and two non-independent Directors. The ASX Code recommends a majority of Directors should be independent to protect minority shareholders. This is also NZSA policy.

We note previous statements by the company that they intend to appoint a further independent director.

**Board Composition:** There is a skills matrix in the Corporate Governance Statement, but it does not attribute skill sets to individual Directors to demonstrate how they contribute to the governance of the company.

We note the Annual Report does not include a table of Directors other governance roles.

The nature of the company's board indicates some commitment to thought and experiential diversity, although it also reflects key shareholder interests in addition to relevant functional skills. NZSA notes there are no females on the Board.

**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.

All Directors were appointed in 2020, aligning with the company's listing date. While not currently a concern, consideration will need to be given to succession planning (in the longer term) to ensure appropriate rotation whilst retaining corporate knowledge and experience.

**ASM Format:** NZSA prefers 'hybrid' ASM's (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation. As the threat of Covid19 is retreating we expect companies to hold hybrid meetings. We believe that there are a variety of cost-effective options for smaller companies to provide physical and virtual attendance options for their shareholders.

We also note there is no disclosure as to whether the Lead Audit Partner will attend the ASM. The company has confirmed to NZSA that the Lead Audit Partner will indeed attend.

**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.

There is comprehensive disclosure related to key strategic, operational and financial risks facing Laybuy together with a summary description of the risk management processes used by the company.

We note that the Corporate Governance Statement disclosure that "*The Board Charter provides that the Company Secretary is accountable directly to the Board, through the Chair, on all corporate governance matters*" – but it is unclear as to the extent to which other internal assurance staff have this same unfettered access to the Board, nor whether the Board is able to seek internal or external advice (beyond the Company Secretary) to support decision-making.

### Audit

NZSA assessment against its key policy criteria is summarised below:

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

**Audit Rotation:** There is no disclosure if the Lead Audit Partner is rotated at 5 years or 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	G	No donations were made.

### Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	n/a	No dividend was paid.
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 Share Purchase Plan. NZSA's preferred method is renounceable rights offer so shareholders can maintain their proportionality or derive some value from the sale of rights.

Laybuy's share price fell from \$0.54AUD to \$0.07AUD (as of 5<sup>th</sup> September 2022) over the last 12 months – an 87% decline. This mirrors others in the BNPL sector, but compares unfavourably with both the NZX and ASX indices. The capitalisation of LBY is \$17.8m (AUD) and would place it 118<sup>th</sup> out of 131 companies were it listed on the NZX by size and makes it a small company.

Metric	2022	2021	Change
Income	\$47.1m	\$32.6m	44%
EBIT	-\$45.5m	-\$32m	n/a
NPAT	-\$51.6m	-\$41.3m	n/a
EPS <sup>1</sup>	-\$0.202	-\$0.237	n/a
PE Ratio	n/a	n/a	

Capitalisation	\$17.8m	\$94.2m	-81%
Current Ratio	5.98	6.29	-5%
Debt Equity	1.36	0.64	114%
Operating CF	-\$52m	-\$47.8m	n/a
NTA Per Share <sup>1</sup>	\$0.10	\$0.21	-51%
Dividend Per Share <sup>1</sup>	n/a	n/a	

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

Laybuy had another difficult year with losses increasing. Most notably, on [page 94 of the Annual report](#) the auditors qualify the accounts and draw attention to “*Note 3.d in the consolidated financial statements, which indicates that the Group incurred a loss after tax of \$51,583,000 and a net cash outflow from operating activities of \$51,967,000 during the year ended 31 March 2022 and, as of that date, the Group’s net assets were \$26,033,000.*”

Income increased by 45% to \$47.1m but operating expenses also increased similarly by 43% to \$92.6m. LBY reported a Net Loss after Tax (NLAT) of **-\$51.5m**. EPS were **-\$0.202**.

The current ratio is at 5.98 and the debt equity ratio at 1.36. These are solid metrics in normal circumstances however we note the qualification provided by the auditor. Total cash balances were \$12.1m.

Operating cashflows were **-\$52m**.

NTA per share is \$0.10 and the company trades at a 28% discount to NTA.

Of total expenses of \$92.6m, the most notable was Consumer Receivables Impairment Expense. This amounted to \$30.8m.

The two largest shareholders are Craig Styris with 17.44% of the company and Gary Rohloff with 20.22% of the company. Both are members of the board.

We note the chair receives a per annum remuneration of A\$130,000 and board members A\$80,000. Additional payments are made for the Audit and Risk Committees and the Nom and Rem committees.

On the 29<sup>th</sup> July, LBY [released an investor presentation to](#) market and provided an outlook and strategic update which says they will focus on “achieving short term profitability”. Time will tell if this strategic plan comes to fruition.

## Resolutions

### 1. To re-elect Steven Fisher as an Independent Director.

Steven Fisher was appointed to the Board in July 2020 and is the Chair. He is currently Chair of ASX-listed The Reject Shop Limited and was previously Chair of ASX-listed Breville Group Limited until his retirement from that board in November 2021.

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

**2. 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.

**3. To approve the issue of equity securities to Gary, Robyn, and Alex Rohloff.**

This resolution relates to the issue of Zero Exercise Price Options (ZEPOs) under the Laybuy Omnibus Incentive Plan (Plan). The Plan is designed to incentivise senior executives and contains performance hurdles based on absolute total shareholder return (TSR, TSR absolute compound annual growth rate (CAGR) and Revenue CAGR. We have read the terms and conditions of the Plan set out in the Notice of Meeting.

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

**4. To approve the issue of securities under the Laybuy Omnibus Incentive Plan.**

The details are set out in the Notice of Meeting.

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

**5. To ratify the prior issue of warrants over fully paid ordinary shares.**

On 26 October 2021, the Company announced to that it had secured a new debt facility with Partners for Growth VI, L.P. (Partners for Growth). As part of this agreement, the Company agreed to issue warrants to Partners for Growth granting Partners for Growth the right to subscribe for 5,679,360 ordinary shares in the Company (Warrants). The Warrants were issued on 2 December 2021. Full details are set out in the Notice of Meeting.

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

**6. To approve additional share issue capacity under ASX Listing Rule 7.1A.**

The ASX Listing Rules allow companies to issue up to an additional 15% of its shares each year without seeking prior shareholder approval. The resolution seeks shareholder approval to increase this by 10% to 25% to allow the company more flexibility. The company does not have any plans and at present to utilize the facility. Full details including the dilution impact are set out in the Notice of Meeting.

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

***Proxies***

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

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

Voting and proxy appointments close **12 noon Wednesday 28 September 2022.**

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

**The Team at NZSA**