



**Performance inferior.**

<b>Company/ASX Code</b>	Adelaide Brighton (ABC)
<b>AGM date</b>	Friday 10 May 2019
<b>Time and location</b>	10am (AEST) online from Adelaide Brighton Sydney CBD office
<b>Registry</b>	Computershare
<b>Webcast</b>	No
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Bob Ritchie assisted by Malcolm Keynes and Des Moriarty
<b>Pre AGM Meeting?</b>	Yes with Chairman Raymond Barro and Chair of Rem Vanessa Guthrie

Some individuals (or their associates) involved in the preparation of this voting intention have or have had a shareholding in this company.

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

**Summary of ASA Position**

**Governance and culture**

Governance is well structured for the 43% holding of the Barro Group and its three non-independent directors. Culture may be exhibiting some generosity of the board to itself and a departing CEO; and insensitivity to shareholders. Safety has been receiving special attention as also has leadership development within the general staff. A third party has been hired to receive whistle blower statements, with provision for anonymity.

**Financial performance**

ROE 3.8%, TSR -17.8%, final dividend cancelled, difficult economic conditions forecast.

**Key events**

No major acquisition.

**Key Board or senior management changes**

NED change: Emma Stein for Arlene Tansey, both independent.

No change of personnel among executive KMP, except for departure of former CEO, Martin Brydon.

## **Summary**

(As at FYE)	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
NPAT (\$m)	47.2	185.3	182.7	186.3	207.9
UPAT (\$m)	123	185	189	179	174
Share price (\$)	3.46	4.27	6.52	5.43	4.75
Dividend (cents)	5	28	24.5	28	27
TSR (%)	-17.8%	-30%	24.6%	20.2%	42.6%
EPS (cents)	7.3	28	28	29	32
CEO total remuneration, actual (\$m AUD)	1.8	5.8	1.9	2.8	3.2

For 2019, the CEO's total actual remuneration was 22 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Significant decline in profit in 2019 has been attributed to three matters: (1) impairment of \$96 million; (2) economic decline, a cyclic factor; and (3) two new competitors, a systemic factor, having potential for continuance and increase in strength. Understanding the future effects of the latter two factors would depend on separate analysis of them. We will ask for this at the AGM.

<b>Item 2</b>	<b>Re-election of Ms Vanessa Guthrie as a Director</b>
<b>ASA Vote</b>	For

### **Summary of ASA Position**

As chair of people and culture committee, Vanessa Guthrie would have had significant influence on remuneration decisions having effect in 2018 and in 2019 regarding special payment for continuance and termination compensation for Martyn Brydon; also on the 2% fee rise for non-executive directors, a matter receiving comment below. It is not an easy decision to support re-election of a board committee chair for remuneration immediately upon suffering a first strike for adoption of the remuneration report. Nevertheless, we are familiar with the strength she brings to this board and another large company domiciled in South Australia. On balance, we believe her forced replacement would not be in the interest of this company or its shareholders. She has said she will lead a review of the company's remuneration policy during 2020 and we have taken this into account.

<b>Item 3</b>	<b>Re-election of Geoff Tarrant</b>
<b>ASA Vote</b>	For

#### **Summary of ASA Position**

Geoff Tarrant is a nominee of the Barro Group; not independent. His experience is international, with primary strength in finance and board experience as chairman of an international software company operating in building and construction. He held no shares in this company at end of December 2019.

<b>Item 4</b>	<b>Election of Emma Stein as a Director</b>
<b>ASA Vote</b>	For

#### **Summary of ASA Position**

Emma Stein now holds 19,313 shares, a suitable start for accumulation of 50,000 shares within three years. The range of industries in which she has experience are mostly those which are exposed to economic cycles, which will be highly relevant on this board.

<b>Item 5</b>	<b>Change of company name</b>
<b>ASA Vote</b>	For

#### **Summary of ASA Position**

AdBri is the company's strongest brand name. The proposed change takes advantage of this.

<b>Item 6</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	For

#### **Summary of ASA Position**

A first strike of 30% occurred last year, seemingly in protest of an apparently too generous departure remuneration for the long serving CEO, Martin Brydon; thought by some to exceed the legal limit for such payments. In this first strike condition, we might have expected the board to be particularly careful.

A 2% rise in NED fees, the first since 2015, would seem modest in most circumstances, totalling less than \$20,000 pa. With the board already on a first strike, however, and in deteriorating economic conditions, resulting in a very significant reduction in profit to represent ROE of only 3.8% and a board decision to cancel a final dividend, the board's generosity to itself was surprising; not pleasantly so. If the decision to increase board fees was taken prior to the AGM in May 2019, then it would have been disingenuous to not inform shareholders at that AGM,

especially in the knowledge of a large vote against remuneration by proxy voting shareholders. If the decision was taken after May 2019, then the board should have been aware of the likelihood of a very inferior financial result pending for the full year. Either way, the decision to increase board fees was not wise. We expect greater wisdom from boards. It is noted, however, that Mr Barro did not take a pay increase for his elevation to chairmanship of the board.

The decision to make on-boarding or on-promotion gifts to senior executive KMP could be considered to continue the exhibition of generosity to senior staff and the board itself. It is noted that these gifts were tempered by holdback provisions, although the description given in the annual report is not really clear. It is noted that modern behavioural economic theory holds that a gift under threat of withdrawal for non-performance is much more motivating than a promise of a reward for performance. Nevertheless, the position of the ASA is against golden handshakes, representing the view of retail shareholders generally.

The \$1,760,571 paid to departing CEO Martin Brydon in 2019 included a retention payment in cash, offered in August 2018, conditional upon continuation of service until July 2019, as alternate to future STI and LTI payments which could fall due in future and would then be reduced accordingly. The board says the 2018 Brydon payment is regarded as the driver of the first strike in 2019.

In broader consideration, executive base pay in 2019 remained steady and a review of remuneration policy will occur in 2020.

ASA estimation of CEO remuneration framework for 2020 is presented in this table. Actual remuneration could vary between a minimum of \$1,329,000 and a maximum of \$3,792,000, plus any extraordinary amount which was a golden handshake of \$450,000 in 2019.

CEO rem. framework	Target \$000	% of Total	Max. Opportunity \$000	% of Total
Fixed Remuneration	1,329	47.6%	1,329	33.3%
STI - Cash	399	14.3%	664	16.7%
STI - Equity	399	14.3%	664	16.7%
LTI	665	23.8%	1,329	33.3%
Total	2,792	100.0%	3,987	100%

Fixed remuneration (FAR) is \$1,329,000 (rounded) for the CEO and relative to that, is 58% for the CFO, and an average of around half a million or 38% for other executive KMP.

STI is equal to FAR for the CEO and is equal to 50% of their FAR for other executive KMP. 80% of the value of STI is determined by financial performance and 20% by non-financial KPI (indicators of future performance). Of STI awarded, half is in cash, the remainder rights which will become shares on vesting, half after one year, the remainder after another year. Neither non-financial nor financial measures are declared in specific and observable terms for STI.

LTI is equal to FAR for the CEO and is equal to 50% of their FAR for other executive KMP.

While we have reservations expressed above, our concerns do not outweigh the good features of the remuneration report, resulting on balance to our vote in favour of adoption of the remuneration report.

<b>Item 7</b>	<b>Spill resolution – conditional item</b>
<b>ASA Vote</b>	Against

### **Summary of ASA Position**

Given the continuation of special payment to Martyn Brydon into 2019, there is an arguable possibility of a second strike. This would lead to a spill motion. Our assessment is that resolution to spill the board would not be in the interest of the business of the company or its shareholders.

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