Australian Shareholders' Association

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Zipline was clever, but Domain still not moving on the market leader

Company/ASX Code	Domain Holdings Australia Limited/DHG
AGM date	Tuesday, 10 November 2020
Time and location	10:00 am AEDT virtual at https://agmlive.link/DHG20
Registry	Link Market Services Limited
Webcast	Yes, only online
Poll or show of hands	Poll
Monitor	Don Adams assisted by Allan Goldin
Pre AGM Meeting?	Yes, with Chair Nick Falloon; Diana Eilert, Independent Director and Chair of People and Culture Committee; Jolanta Masjoda, Investor Relations

NOTE: ASA WILL BE ATTENDING THE VIRTUAL MEETING VOTING THE PROXIES WE RECEIVE AND ASKING QUESTIONS, AS NORMAL

The individuals (or their associates) involved in the preparation of this voting intention have no shareholdings in this company.

In a difficult environment Domain held its own. Our principal concerns are with the lack of independence of the Board and with remuneration policy.

	Financial Statements and Reports
ASA Vote	No vote required

Governance

Last year we pointed to the lack of independence of the Board. ASA policy follows the ASX Corporate Governance recommendations that a Board have a majority of independent directors and an independent Chair. The Chair, Nick Falloon is Deputy Chair of Nine Entertainment Co. Holdings Limited (NEC) which owns 59% of Domain and four of the seven directors are non-independent.

On 1 February 2020 Domain replaced two non-independent directors with Hugh Marks, CEO of NEC, and Lizzie Young, Director Group Marketing and Local Markets at NEC. These directors are being presented for election at this AGM.

Having a majority shareholder control the Board poses a risk that the directors might not always act in the interest of all the shareholders, particularly the minority shareholders. To mitigate this risk the Domain Board has arranged that the independent directors meet separately at each Board meeting under the leadership of Geoff Kleeman as the senior independent director. Also, each of the Board committees (Audit and Risk, People and Culture, and Nomination Committees) are chaired by an independent director and have a majority of independent directors.

Nevertheless, the ASA prefers that the Board comply with the ASX Corporate Governance recommendations.

During 2020 the Audit and Risk Committee worked with the Board and management to review the key risk areas. A full description can be found on pages 54 and 55 of the Annual Report.

The Annual Report (page 47) also contains a Board Skills report. There have been some nice increases in some key areas – Media Expertise was up to 86% from 57% in 2019, and Technology was up to 71% from the low 43% we commented on last year.

Financial performance

Revenue of $281 million was down substantially from 2019, reflecting a weak market as well as the disposal of some non-core businesses. Excluding significant items and disposals, revenue fell 6% for Core Digital, rose 83% for Consumer Solutions (most of the business had been disposed of) and fell 41% for Print.

Interestingly, the fall in revenue of 6% was spread over the whole year. That is, the business was declining in the first half, well before the impact of COVID-19, and the fall in the second half continued the trend despite COVID. Also of interest, Domain's main competitor REA had 6% revenue falls in its Australian Property business, equally spread over the two halves.

Domain is number two in the online property market with revenues of $233 million for the Core Digital business, less than a third of REA's revenue for its comparable business. Domain is using its relationship with Channel Nine to try and develop in areas of competitive weakness – Queensland, South Australia, and Western Australia.

On a like-for-like basis, Domains residential revenues fell 4% due to the combination of an 11% fall in listings coupled with 6% growth in yield per listing. The Core Digital business had EBITDA of $101 million, down from $109 million in 2019.

Revenue for Consumer Solutions fell from $26.8 million to $5.6 million due to the disposal of marginally profitable businesses. The rump business grew strongly, but EBITDA was still negative at $(3.6) million.

The Print business continues to be profitable, earning EBITDA of $6.1 million on revenue of $26.5 million. Print attracts high value, aspirational audiences.

Statutory Profit was a loss of $227.7 million following ~~a~~ large write down of Goodwill of $256 million after only one year in the Core Digital business. Excluding significant items and disposals there was a modest underlying profit after tax of $22.2 million.

Impact of the effects of COVID-19

Domain reacted to the COVID-19 pandemic in several ways, with an emphasis on liquidity and cost control.

1. The company negotiated an additional $80 million debt facility on top of the $225 million negotiated in 2019. This new facility remains unused. Financial covenants were also waived for June and December 2020.
2. Staff were offered the option of reduced hours with lower pay or of deferring a portion of their pay in return for share rights which will vest in November 2021. This was called "Project Zipline" and the share rights alternative was taken up overwhelmingly by the staff. The CEO and the non-executive directors also took up the share rights offering. Hugh Marks and Lizzie Young did not participate since they do not receive directors' fees in any case.
3. The usual social distancing and working from home measures were put in place.
4. Agent customers were offered a range of support packages, reducing revenue by about $5 million.
5. The Print business was paused during the fourth quarter.
6. The Company paid only a 2-cent interim dividend and passed on the final dividend to conserve liquidity.

Domain has included $5.4 million in Jobkeeper grants in its results. They have not reduced bonuses as has been done by some companies receiving this support.

Summary

(As at FYE)	**2020**	**2019**	**2018 pro forma**
NPAT ($m)	(227.7)	(137.6)	(6.2)
UPAT ($m)	22.2	37.4	52.9
Share price ($)	3.35	3.18	3.22
Dividend (cents)	2	6	8
TSR (%)	7.2%	0.6%	
EPS (cents)	3.8	6.4	9.2
CEO total remuneration, actual ($m)	1.117	1.698 (part year)	

For 2020, the CEO's total actual remuneration was **12 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics). Note that for 2020 the CEO total remuneration is lower since he took his STI and a portion of his base salary as share rights which will not vest until 7 November 2021.

Resolution 1	Adoption of the Remuneration Report for the financial year ended 30 June 2020.
ASA Vote	**Against**

Last year the ASA voted its proxies against the remuneration report. This year the remuneration policy in the 2020 Annual Report is virtually unchanged and we would have again voted against it.

Resolution 4 for this AGM reveals that Domain has changed part of its remuneration policy for the 2021 financial year. LTI will now consist of share rights (rather than options which were difficult to assess) and that the amount vested will now depend on two performance measures, Relative TSR and CAGR of EBITDA. The vesting period is still only three years.

It is curious that such a policy change would only be communicated through an AGM resolution on the issue of the CEO's share rights but we have been assured by the Chairman that it is a general change and will apply to LTI recipients such the other KMP.

If relative TSR is equal to 50% of the Comparator Group and if CAGR of EBITDA reaches an undisclosed target level, then the amount that vests will be 50% of the maximum. The table below has been changed from last year to reduce the target LTI to 50% of the maximum.

<u>CEO Remuneration (full year pro forma)</u>

CEO rem. framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.200	36%	1.200	33%
STI - Cash	0.720	27%	0.960	27%
LTI	0.720	27%	1.440	40%
Total	2.640	100%	3.600	100%

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

The ASA considers the change in the LTI to be an improvement, but we plan to vote against the resolution this year. We are still not happy with the remuneration policy for the following reasons and would hope there may be further improvements.

1. STI awards are paid fully in cash but the ASA expects a minimum of 50% deferred equity.

2. LTI compensation is determined over only three years. Our standard is at least four, preferably five years for performance measurement for LTI.
3. There is no transparency about non-financial criteria used for the STI award.
4. Bonuses were paid although they received JobKeeper in order to keep staff employed

It should be noted that the Board allowed the two KMP to take their STI in the 2020 year as share rights vesting in November 2021. The STI component determined by financial measures (70% of STI) was zero, but the CEO was paid 100% of the portion of target STI determined by non-financial criteria (30% of STI).

The ASA position is that STI criteria should be measurable and should not be part of what one would expect an executive to do as part of what their base salary covers. Mr Pellegrino's STI objectives included ones described as "Senior Leadership Development & Succession Planning" and "Positive Culture Development". We expect that these would be normal duties for a CEO.

Resolution 2	**Election of Mr Hugh Marks as a director**
ASA Vote	**Against**

Mr Marks is the CEO of NEC, the 59% majority owner of Domain and is hence not an independent director. Our vote against his election reflects our view that the Domain Board is non-independent.

We expect that Mr Marks will elected since he presumably will get the NEC vote. Also, Mr Marks is, apart from the independence problem, superbly qualified to be a director of Domain with his strong media, technology and public policy experience described in the Notice of Meeting.

Resolution 3	**Election of Ms Lizzie Young as a director**
ASA Vote	**Against**

Ms Young is Managing Director – Group Marketing and Local Markets at NEC. Again, our vote against her election reflects our concerns with her independence. We also that having on the board a Director who reports to another Director in their executive role makes it difficult to get a full and frank exchange of views.

Ms Young is well qualified to be a director of Domain, apart from her lack of independence, and we expect that the NEC vote will ensure her election.

Resolution 4	Issue of Performance Rights to Managing Director and Chief Executive Officer, Mr Jason Pellegrino, under the Company's Equity Incentive Plan
ASA Vote	For

This motion gives effect to the new LTI policy which we prefer to the previous policy based on options. The new LTI policy is described above in the section about the Remuneration Report. Since Mr Pellegrino is a director of Domain, shareholder approval is required under the ASX listing rules for such a grant. Similar grants will be made to the other KMP but they do not require shareholder approval.

Resolution 5	Renewal of proportional takeover provisions in the Company's constitution
ASA Vote	For

Since this provision in the constitution protects shareholders' interests the ASA will support the motion.