

5 October 2019

## **Ebos Group Ltd (EBO)**

The company will hold its Annual Shareholders Meeting **2.00pm Tuesday 15 October 2019**.

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

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 3600 staff, 72% in Australia and 28% in New Zealand at 57 locations. Healthcare comprises 86% of its business with animal care the other 14%.

The financial results for FY19 were flat compared to FY18 with Revenue \$6.9 billion, EBITDA \$250.4 million and NPAT \$137.7 million. Dividend was up 4.4% at 71.5 cents per share and the shares are trading at \$24.15 up 9.58% over the past year.

In April the Company announced a capital raising by way of a placement to institutions and was roundly criticised by NZSA for that. We were not impressed by its public announcements and wrote to the company but the responses from the Chair were dismissive. The reasoning was contradictory and the revelation that the placement was heavily oversubscribed to approx. \$700 million was startling evidence of just how attractive it was, and that underwriting was clearly unnecessary.

Ordinary shareholders were significantly disadvantaged and the company's communication with them was appalling.

NZSA sought to engage in dialogue but this did not take place until just recently (mid-September) when we met the Chair Designate.

We understand the company had its reasons for acting as it did, but we remain unconvinced that it could not have treated its existing shareholders more fairly.

While the CEO has been reported as saying that he wouldn't do anything differently, NZSA expects that this conduct shall not be repeated under refreshed governance and the guidance of a new Chair.

### **Board Composition**

The Board currently comprises an Independent Chair, 3 Independent Directors and 2 Non-Independent Directors, 4 males and 2 females. The 2 Non-Independent Directors are appointed by Sybos who hold 37.43% of the shares.

The Chair Mark Waller is retiring at the ASM. He joined the company in 1984 as CFO and was appointed CEO in 1987. After retiring as CEO in 2015 he remained on the Board and was appointed Chair. He will be replaced by Liz Coutts.

We note that only one Director has an executive background in the industry. In our 2018 PVI we suggested that the Board look to appoint a Director with an alternative background to the current Directors and given the retirement of the Chair we suggest if the Board is going to make a replacement appointment it should be from the industry to strengthen the Boards' core skills.

## Resolutions

### 1. To amend the Constitution to comply with the new NZX Listing Rules.

The NZX Listing Rules were amended as at 1<sup>st</sup> January 2019. This resolution seeks shareholder approval to amend the current Constitution to comply with the new Rules. The details are set out in the Notice of Meeting.

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

### 2. To elect Stuart McLauchlan as an Independent Director.

Stuart McLauchlan was appointed to the Board 1 July 2019 and is therefore required to offer himself for election. He is currently Chairman of Scott Technology Limited, Analog Digital Instruments Limited and UDC Finance Limited. He is also a director of Ngai Tahu Tourism Limited and Argosy Property Limited and holds directorships with several other private companies. He is also a governor of the New Zealand Sports Hall of Fame and a member of the Marsh NZ Advisory Board. He is a chartered accountant and a past President of the Institute of Directors.

This is a considerable number of roles. NZSA policy is that Directors should not over commit themselves so as to be able to give due attention to their roles. We would not expect Mr McLauchlan to take on any further roles without relinquishing one or more of his current roles.

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

### 3. To increase the Directors Fee Pool from \$1,100,000 to \$1.410,000

The Board are seeking a 28% increase in the Directors' Fee Pool.

The details are set out in the Notice of Meeting.

At the meeting referred to above, NZSA asked the company for more information, particularly the Independent Report referred to in the Notice and the quantum to be paid to each Director.

The NZX Code of Corporate Governance Principle 5.1 Remuneration states;

“Every issuer should recommend director remuneration to shareholders for approval in a transparent manner. The remuneration proposed for approval should be clearly expressed so shareholders understand

why directors are being paid a particular amount as compensation for their contribution to the issuer. Disclosure should make it clear what individual directors are proposed to be paid, including outlining separately any amounts payable for any committee work. Disclosure should not be limited to a total remuneration pool.”

Following our approach to the company it issued a statement to the NZX on 23 September setting out the quantum to be paid to each Director but did not release the Independent Report.

NZSA Policy on this matter is clear. It states;

“Where consultant reports are used to justify fee increases, the NZSA believes the full report should be made available to shareholders as part of normal disclosure.”

A summary of this report has now been made available to NZSA but only in confidence. Our opinion is that there are no valid reasons why this information should not be available to all shareholders, as per our policy. Our opinion is supported by the wording of Principle 5.1 above.

We expect the Company to comprehensively explain the need for the increase at the meeting.

Regardless of that, the company’s treatment of its shareholders does not meet the standards NZSA expects and accordingly it is not appropriate for the directors to have any increase in remuneration until the overall conduct of the company to its owners shows a dramatic improvement.

We will vote undirected proxies **AGAINST** this resolution.

**4. 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 <http://www.investorvote.co.nz>

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

Voting and proxy appointments close **2.00pm Sunday 13 October 2019**

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



**STANDING PROXIES** - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY FOR SOME OR ALL OF YOUR HOLDINGS WITHOUT HAVING TO FILL IN NEW FORMS EVERY TIME. MAKE YOUR VOTE COUNT!

**DETAILS ON NZSA WEBSITE,**

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

The Team at NZSA