



Pivot to online education

Company/ASX Code	IDP Education Ltd/IEL
AGM date	Tuesday 19 October 2021
Time and location	10am Virtual. https://agmlive.link/IEL21
Registry	Link Market services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Claudio Esposito, supported by Mike Robey
Pre-AGM Meeting?	Yes, with Chairman Peter Polson, Company Secretary Ashley Warmbrand and Corporate Director Craig Mackey

The individual involved in the preparation of this voting intention has no shareholding in this company.

Item 1	Financial statements and reports
ASA Vote	No vote required

Summary of ASA Position

Financial performance

IDP's business was impacted by Covid this financial year since international and Australian borders remained closed. This led to a reduction in student mobility, IELTS testing (English language testing, required for admission to many English-speaking Universities around the world), student placement and English language teaching in all areas of their global footprint.

The first half of FY2021 saw revenues drop by 29% compared with prior calendar period but they rebounded by 25% in the second half.

Overall, a 10% net loss of revenue was reported for the year. IDP and apparently the shareholders were pleased by this result, with the shareholder return up nearly 60% on the year. Dividend of 8c was delayed and half of the prior years.

Although revenues fell, IDP still managed to collect almost 100% of their cash receipts and have a cash on hand balance of around \$300m. Interest coverage is 10 times, and they present a low balance sheet risk.

Australian revenue fell 52% due to border closures. China revenue fell 12% after the British Council (BC) suspended IELTS operations for 17 months and only reopened for business in July this year. Revenue from Chinese student placement fell by 18%. On the other hand IDP benefited from a license fee increase of 27% from the BC, which helped to offset this loss of volume. India, badly affected by Covid, saw falls in IELTS testing of 40% and in student placement of 28%. Revenue fell by 25% due to the drop in English language teaching in Vietnam and Cambodia and the drop in

IELTS in other Asian markets. With the Australian borders staying closed, many students here opted to travel to the UK and Canada, where borders remained open, which led to a loss of market share. The Board believes this share will require a couple of years to return to pre-pandemic levels.

The IDP Canada business initially had poor student placement numbers due to border closures and visa processing delays in the first half of the financial year, but revenues picked up in the latter half of the year due to increased IELTS testing. This coincided with the Canadian government launch of a new immigration program for an additional 90,000 students.

Whilst revenues fell only 10%, fixed costs remained at the same level and financial resources were deployed to retain and support staff in moving online as much of their work as possible. EBIT (earnings before interest and tax) fell 36% year-on-year. The board had expected a far greater fall in both earnings and profit, but the mitigation actions of the global business were very successful in staunching the bleeding. IDP benefitted from \$7.9m Government JobKeeper assistance this financial year and \$4.5m in FY2020. ASA asked about the IDP position on returning the subsidy.

The chairman had stated that the funds were deployed to retain staff which otherwise would have been laid off, so they have no intention to remit it. They are still impacted by Australia's closed borders and the funds assisted IDP retaining and reskilling of staff here and across the globe who had been significantly impacted by the pandemic. It is to their credit that they have managed to drop only 10% in income, and in fact increased the IELTS testing by 5% in a horror year for a student placement and training business. In large part this was because they had digitised much of the training just prior to Covid and had created digital marketing packages for participating Universities to attract students to IDP products.

Key events

At the beginning of the financial year, IDP announced their acquisition of the UK Government-funded British Council (BC) IELTS business in India for \$238m AUD. This was precipitated by the need for the BC for cash to support the rest of their business. India is the largest deliverer of IELTS globally by volume, so this fire-sale was a strategic coup for IDP. The Chairman indicated that the market had responded well to the transaction by adding an additional \$1b to the market capitalisation of IDP. IDP believes it can develop the IELTS business well beyond what was already being done by BC. IDP were in a good position to capitalise on the transaction and given their existing footprint of IELTS and the favourable growth opportunity in the upper-and middle-income Indian student market. The integration is expected to go smoothly.

Board or senior management changes

There have been major changes planned to the ownership structure of the company. Education Australia (EA) is a consortium of 38 Australian Universities, all of which have been cash-strapped after the border closures in both Australia and in the source countries for foreign students, which locked out a principal source of revenue. Geo-political tension with China will make the return of the Chinese students an additional challenge. EA is largest shareholder (40%) since listing with a majority representation on the board, written into the constitution since the IPO. It announced in March 2021 that it will remit 25% of its 40% in IDP to the participating Universities and offer the remaining 15% for sale to Institutional investors, to be completed by Dec 2021. In large part this was because of a need for the Universities to cash in their investment to fund ongoing expenses. When complete, this will remove EA from the control of the Board and enable a more globally

focussed education business. This will also be an opportunity for the board to exercise freedom in recruiting the new more suitably skilled board members. IDP is not currently in the ASX100 as there is insufficient share float for independent investors, but this will change with the sell down by EA and the University shareholders.

ASA focus issues

The IDP board lacks gender diversity, again in large part due to the controlling influence of EA, who have chosen not to put up female candidates at the last and at this AGM. They are one of very few large companies with a single female board member. The ASA voted against the returning EA-nominated male Board candidate at the 2020 AGM on the grounds of diversity, and as indicated below will do so again this year. IDP have been made aware of ASAs position on this matter, but the Chairman's hands were tied by the EA control.

Summary

(As at FYE)	2021	2020	2019	2018	2017	2016
NPAT (\$m)	34.8	65.5	67.7	53.4	43.6	35.1
UPAT (\$m)	39.7	67.9	66.6	51.5	41.5	39.9
Share price (\$)	24.50	15.49	18.11	9.92	5.01	4.06
Dividend (cents)	8	17	2	15	13	6
TSR (%)	59	-10.6	70.5	110.9	26.9	0.0
Basic EPS (cents)	14	26	26	2	16	16
CEO total remuneration, Statutory (\$m)	2.100	1.721 ^{1,2}	1.531 ²	1.401 ²	1.381 ²	1.028 ²

1 See commentary under remuneration. Mr Barkla took home a total of \$37.7m, largely by exercising 3.4m options resulting from the IPO in 2015. Since the published amounts for LTI are based on fair value at grant date and not realised value, the statutory remuneration figures including LTI published in the annual reports are substantially lower than actuals, so have been omitted

2 excludes LTI component

For the 2020 financial year, the CEO's total actual remuneration was **23 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

Item 2a	Re-election of Chris Leptos as a Director
ASA Vote	Against

Chris Leptos was elected to the IDP board after the IPO in 2015 and currently holds several advisory roles in government, dealing with parliamentary legislation and university faculties such as those of Flagstaff and The University of Melbourne. He currently holds no ASX listed board positions. He is a nominee of EA and his re-election will not address the lack of gender diversity

(only 1 of 7 are women). In addition, any Director appointed now will soon transition to sitting on a board independent of EA, so we see his re-appointment will delay the rejuvenation of the board, and therefore will vote against it.

Item 2b	Re-election of Professor Colin Sterling as a Director
ASA Vote	Against

Professor Colin Sterling was voted in 2018 and has a scientific background from Berkeley University, California, USA. He is the President and vice chancellor of Flinders University with 30 years' experience. Professor Sterling is a nominee of, and sits on the board of, Education Australia. It is also unclear if he has the requisite skills for a global hybrid face-to-face and online education business. For the same reasons given above for Mr Leptos, will vote against this re-appointment.

Item 3	Adoption of the Remuneration Report
ASA Vote	Against

Summary of ASA Position

IDPs remuneration report remains structurally unchanged from the previous financial year.

Some minor changes have been made to address new KPIs and thresholds. For example, an increase threshold of 50% on the EPS target has been implemented due to the drop in earnings in FY2021. It would be plausible that EPS may rebound higher than previous threshold targets.

IDPs staff pay reductions have ended and salaries will resume their normal levels.

The CEO, Andrew Barkla's fixed annual remuneration (FAR) was set this year at \$1.05m. His STI was also set at \$1.05m (100% FAR) and his LTI was set at a threshold of \$315,000 (30% FAR) and a target of \$630,000 (60% FAR). The chairman has stated that this year they are looking at increasing the quantum of 'at risk' pay which would see an increase in the 'exceptional' STI achievable and/or the LTI target. 50% of STI rewards are measured using earnings before interest and Tax (EBIT) target the balance is then measured by non-financial targets that are specific to each KMP and are not disclosed. Currently the STI is paid 50% cash and 50% in equity with a one year holding lock, which meets ASA guidelines.

The LTI is awarded using an EPS CAGR (long term growth in earnings per share) and rTSR (shareholder value relative to peers) measure. The method for computation uses fair value and not face value of the share price over time using a Monte Carlo simulation, which is largely unintelligible to shareholders and can lead to unintended high awards. This is therefore opposed by the ASA. In 2021, different share prices are used for EPS and rTSR respectively, being \$19.16 and \$14.86 respectively, further confusing the LTI make-up.

There is a proportional mix of both financial and non-financial targets which is in reasonable balance. This year Andrew Barkla's take-home package will amount to \$10.2m. This comprises LTI share rights from FY2018 which vested on 31 Aug 2020 (342,341), a deferred STI that vested 1 Jul 2020 (24,613), his fixed component and the 2021 STI.

We voted against this scheme in 2020 and will do so again this year.

Item 4	Non-Executive Directors remuneration
ASA Vote	For

Summary of ASA Position

IDP will seek to increase the Non-Executive Director fee pool from \$1.5 to \$2m. The current fee pool was established in 2015 and the chairman has indicated that funds be made available for the prospect of expanding the board and expanding its skill base. With the opportunity arising from the removal of EA board control and with the expansion of the online and global scope of IDP, we see this as prudent. We have been assured by the Chairman that they will also use this opportunity to simultaneously address gender diversity.

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