Australian Shareholders' Association

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Can Pact make a turn around and reverse its fortunes?

Company/ASX Code	Pact Group Holdings/PGH
AGM date	13 November 2019
Time and location	11am Pact Group Head Office, Building 3, 658 Church St, Cremorne, VIC
Registry	Computershare
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Hans Ha assisted by Mike Robey
Pre AGM Meeting?	Yes, with Company Secretary Jonathan West, Assistant Company Secretary Fiona Zafirakos, and Investors Relation Manager Anita James

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Governance and culture

No changes have been made that the ASA is aware of.

Financial performance including dividends and shareholder returns

Significant Items (asset write downs and impairments) are one off items, which have reduced shareholders' equity for the year. The impairments were due to the change of their operating model and re-evaluation resulted to comply with accounting standards.

Revenue is up by 9.6%, Earnings Before Interest Taxes Depreciation and Amortisation (EBITDA) was down by 2.8% and Net Profit After Tax (NPAT, excluding significant items) was down by 18.3%. If impairments of $381.8 m are included, the company made a loss of $289.6m, which equates to a -488.8% return.

EPS was at 23 cents per share excluding significant items (30 cents last year), which is a 23.3% decrease but including impairments EPS comes to -85.3 (23.3 cents last year including significant items) at a -466% return.

TSR is down at -48.96% and no dividends were paid this year.

Key events such as restructures, acquisitions, buy backs and capital raisings

Pact has closed two facilities and rationalised another. The Company is going through a Strategic Review and will base future strategies on the outcome.

Pact has been removed from the S&P/ASX200 Index as part of the September 2019 Quarterly Rebalance.

Key Board or senior management changes

Mr Peter Margin has resigned and Mr Jonathan Ling has taken over the role of Chair of Audit, Business and Compliance Committee. Ms Lindsey Cattermole took over the role of Chair of the Nomination and Remuneration Committee. Mr Sanjay Dayal was appointed as CEO and Mr Raphael Geminder has resumed the role of Non-Executive Chair.

ASA focus issue (not discussed under remuneration report or re-election of directors)

With Mr Peter Margin's departure, the Board consists of 6 people with 33% female representation, which fits ASA guidelines.

Due to the change in share price, Mr Jonathan Ling and Mr Ray Horsburgh's shareholding is below the value of their annual fees. However, both directors have been increasing their shareholdings and Mr Ling almost doubled his shareholding this year.

Ms Carmen Chua, who has been newly elected, has significantly raised her shareholding.

The ASA will ask when shareholders can expect to receive dividends again and will also queue on how the Strategic Review will align with shareholders interests.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	(289.6)	74.5	90.3	85.1	67.6
UPAT ($m)	77.3	94.7	100	94.3	85.2
Share price ($)	2.69	5.27	5.99	6.03	4.68
Dividend (cents)	0	23	23	21	19.5
TSR (%)	-48.96	-7	3	33	42
EPS (cents)	*(85.3)	30	33.5	32.7	29
CEO total remuneration, actual ($m)	**1.913	1.33	1.37	1.68	1.88

* Statutory EPS has been put in the table to take into account of the asset write downs and impairments as it impacts shareholder equity.

**This includes the share grant of 209,205 issued to the previous CEO Malcolm Bundey at the 3rd Dec 2018, which was awarded as condition of 3 years of employment with the company. The remuneration reflects the actual share price when it was issued at $3.62 compared to the share price of the grant date of $4.78 at 1st Dec 2015 (award was granted at a statutory value of $1 mil).

Mr Bundey left the company in March 2019.

For 2019, the CEO's total actual remuneration was **21.7 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For May 2019, the Full-time adult average weekly total earnings (annualised) was $88,145 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings", Trend(a)).

Item 2	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

There has been little change in the Remuneration since introducing an LTI scheme in 2016.

Key Characteristics of the Remuneration Report:

- Target LTI is 50% of Fixed Annual Remuneration (FAR) and maximum LTI is 100% of FAR
- A 3-Year LTI period with 1 Performance Hurdle; Relative Total Shareholder Return (rTSR)

The area of the Remuneration the ASA favours:

- STIs have a financial gateway where no STIs are awarded unless the minimum EBITDA hurdle is achieved
- 80% of STIs in financial metrics, 20% in non-financial metrics
- Performance Rights are awarded at market value
- No initial share grants for the CEO (the previous CEO has been awarded the share grant as a condition of employment for 3 years or longer)
- Having an actual remuneration table for KMPs

The areas of the Remuneration the thinks can improve on:

- Cash only for STIs. The ASA prefers equity to be added with a deferral period in the STIs
- LTIs are measured in a 3-year hurdle. The ASA prefers longer hurdles (4~5 years or longer) or a holding lock in the LTI to make up for the duration of the performance period
- Gradual vesting of LTIs over cliff vesting where awards do not suddenly vest all at once when the KMPs reach the award threshold
- Having only 1 hurdle in the LTI, ASA prefers having at least 2 performance hurdles, one of which is TSR and the other a relevant financial metric
- LTIs can vest even if absolute TSR is negative

The company was open to our suggestions, however KMP have been out of the money for the past few years and they found the changes would be more pragmatic when the company is back into position.

While there is the possibility that LTIs could vest if absolute TSR is negative, it is measured against the S&P/ASX200 (excluding Financials, Metals and Mining) so the whole market will have to be negative in that situation and if the company is able to do better than their peers in such an environment despite absolute TSR being negative, we feel the risk of not being able to award KMPs properly could arise as well.

As no awards have vested, and no share grants are being offered for taking the role, we find it practical to wait and bring this up in an opportune time.

CEO rem. framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.225	46.72%	1.225	33.33%
STI - Cash	0.784	29.90%	1.225	33.33%
LTI	0.613	23.38%	1.225	33.33%
Total	2.622	100.0%	3.675	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.

Item 3	**Re-election of Ms Lyndsey Cattermole as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Lyndsey Cattermole was appointed at the Board in November 2013 and is a member of the Audit, Business Risk and Compliance Committee and the Chair of the Nomination and Remuneration Committee. Ms Cattermole is considered by the Board as an Independent Director.

Ms Cattermole is also currently a Non-Executive Director (NED) of Myer Holdings ltd in addition to holding NED roles in several private companies and institutions. Ms Cattermole was formerly a NED for Treasury Wine Estates and Tatts Group Limited.

Ms Cattermole has over 391,329 shares of the company, a considerable shareholding that is at risk. Along with her experience and shareholding, we support the re-election of Ms Cattermole.

Item 4	**Re-election of Mr Raphael Geminder as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Raphael Geminder is the founder and Chairman of Pact Group and prior to Pact was the co-founder and Chairman of Visy Recycling, growing it to the largest recycling company in Australia. He is also a member of the Nomination and Remuneration Committee.

Other than being the Chairman of the company and holding directorship for several private companies (mainly consisting of personal holdings), Mr Geminder does not hold any other Non-Executive Director (NED) roles.

Mr Geminder is the largest shareholder (combining personal equity and controlling interests) of the company and does not receive a fee for his position as Chairman and NED for the company, so he has significant skin in the game and stands to lose the most should the company not perform.

While the ASA is deeply unsatisfied with the significant write offs of the company, poor shareholder return and lack of dividends this year under his watch, we understand that the company is going through a strategic review and will support his re-election and look forward to a positive turnaround.

Item 5	Approval of FY19 LTI grants to CEO/Managing Director Sanjay Dayal
ASA Vote	For

Summary of ASA Position

This resolution seeks Shareholder Approval to grant CEO/MD Mr Sanjay Dayal 69,784 performance rights for FY19 at a market value (5 day Volume Weighted Average Price at the release of its full year financial results) of $4.299 per share.

These rights will vest if the performance measures are achieved. As the share price has significantly decreased since the awarded date, Mr Dayal will actually be receiving less in monetary terms.

While the ASA favours performance rights being granted at market value, LTIs have only one performance hurdle at Relative TSR (which has been modified) and is measured in a 3-year performance period. 50% of the LTIs vest by being at the 50th percentile among its peers and 100% will vest at or above the 75th percentile (awards vest linearly in between).

Taking into account that Mr Dayal will be receiving less in monetary terms as the awards are valued on a higher share price, we feel that Mr Dayal's FY19 awards have been significantly at risk.

Item 6	Approval of FY20 LTI grants to CEO/Managing Director Sanjay Dayal
ASA Vote	For

Summary of ASA Position

This resolution seeks Shareholder Approval to grant CEO/MD Mr Sanjay Dayal 538,189 performance rights for FY19 at a market value (5 day VWAP at the release of its full year financial results) of $2.2297 per share.

These rights will vest if the targeted performance measures are achieved.

While the ASA favours performance rights being granted at market value, LTIs have only one performance hurdle at Relative TSR (which has been modified) and is measured in a

3-year performance period. 50% of the LTIs vest by being at the 50th percentile among its peers and 100% will vest at or above the 75th percentile (awards vest linearly in between).

However, no STIs or LTIs have vested for some time and we found it more practical to bring up the changes when the company was back in the money.

Performance Rights are valued at market value and maximum opportunity is 100% for both STIs and LTIs so KMPs are not being overly awarded with stretch opportunities or awards being valued using fair value.

At this point, we feel at this point that shareholders will be able to benefit more if the new CEO is able to successfully make a turnaround.

Item 7	**Renewal of Proportional Takeover Plebiscite**
ASA Vote	**For**

Summary of ASA Position

This resolution seeks shareholder approval to renew provisions deals with proportional takeover bids for the Company's shares in accordance to the Corporations Act.

A proportional takeover offer is where an offer is made to each shareholder for a proportion of that shareholder's shares, and not for the shareholder's entire shareholding.

If the proportional takeover approval provision is not in the Constitution, a proportional takeover bid may enable control of the Company to pass without shareholders having the opportunity to sell all of their shares to the bidder.

Shareholders may therefore be exposed to the risk of being left as a minority in the Company and the risk of the bidder being able to acquire control of the Company without payment of an adequate control premium for their shares. The proposed proportional takeover provisions decrease this risk because they allow shareholders to decide whether a proportional takeover bid is acceptable and should be permitted to proceed.

The ASA supports the renewal of this resolution.

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