

Spill resolution to challenge Seeks board

Company/ASX Code	Seek Ltd/SEK
AGM date	Thursday, November 19, 2020
Time and location	3pm Virtual Event
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Claudio Esposito
Pre AGM Meeting?	Yes, with Chair Graham Goldsmith, Company Secretary Lynne Jensen & Business Analyst Steve Moran & Michael Wachtel (NED)

The individual involved in the preparation of this voting intention has not a shareholding in this company.

Item 1	Financial statements and reports
ASA Vote	No vote required

Summary of ASA Position

Financial performance

Seek's performance this year was flat both as result of the impact of Covid-19 as well as a fall in overall demand for Seek services. Seek registered a fall in aggregate billings of 65% in the second half of FY2020 Vs prior comparable period (PCP). The company attributed a reduction of \$13m due to the Covid-19 pandemic, however this sum was recovered by cuts in discretionary spending and government grants from Australia, the People Republic of China and New Zealand in line with regions it operates in.

Overall, Seek's Net Profit after Tax had fallen by 51% compared to the same time last year.

While many businesses revenues have been affected by the pandemic, Seek are in a unique position where they have managed to retain dollar sales within their 'deep revenues/premium products' (ANZ and Asia) or Business Processing Outsourcing (Zhaopin, based in China). While volumes have dropped, sales in dollar terms grew by 3% to \$1577m. Zhaopin had also performed relatively well and while online sales have been impacted, adjacent services such as education arm and labour outsourcing contributed to 73% of the rise seen in their revenues.

Seek are currently going through their next phase of development with the focus on the human capital markets. The potential success of these markets is evident in the Zhaopin model as previously indicated but the company requires sizable capital outlays to remain competitive. In five years Seek capital spend has more than doubled. Around \$114m was spent this year on capital expenditure and around \$106m in the last financial year.

Seek long term bank Debt stands at \$1.8b, having doubled since 2017. Much of the bank facilities Seek has (14 in total) have been drawn down with five still retaining funds for use. The maturity dates start at 2022 and short-term current accounts all being renegotiated and extended. Falling cash rates has made money an attractive option for capital. Seek net interest cover is still a healthy seven times.

Seek have grown revenue 4-5 times over 10 years allowing the company to distribute needed capital toward investment. According to the Chair, the banks have renegotiated their bank covenants and, given the wide variety of markets Seek serves, banks have confidence in their ability to repay debt.

Key events

Seek lost long-standing director Denise Bradley who passed away in March this year having sat on the board since 2010.

Seek will not be providing shareholders with a final dividend because of the economic impact of Covid 19 to the business. Seek intend to reinstate the dividend once economic conditions improve.

Other costs, such as impairment charges on Brazil and OCC assets dragged down Net profit by \$198m.

Seek has taken impairment charges over the last four years totalling around \$390m due to poor performing assets (and \$160m Zhaopin privatisation cost). These were largely in their Brazilian and Mexican operations which have both suffered major economic contractions. They do have market leadership there and remain positive about the outlook in the region. The Latin American businesses were purchased at a time of BRICS when the outlook in Brazil was promising and capital inflows were rising. The region has thus far failed to live up to its economic potential.

Key Board or senior management changes

This year Seek will be welcoming Linda Kristjanson as a new Non-executive director.

ASA focus issues

With the passing of Denise Bradley, Linda Kristjanson will be the new director to re-balance the board.

In terms of finance, the Chair did indicate that raising capital was an option, but they understand the shareholder dilution aspects of issuing new shares. While Seek currently still retain the capacity to generate high revenues, increasing debt is their choice.

Summary

(As at FYE)	2020	2019	2018	2017	2016	2015
NPAT (\$m)	(111.7)	180.3	53.2	340.2	357.1	281.2
UPAT (\$m)	90.3	184.8	229.5	220.8	178.9	186.8
Share price (\$)	21.89	21.16	21.81	16.91	15.21	14.06
Dividend (cents)	13	46	46	42	40	36
TSR (%)	4.0	-3.0	27	11.6	8.3	-10.7
Basic EPS (cents)	28.0	50.7	15.2	97.9	103.7	82.1
CEO total remuneration, actual (\$m)	4.0	8.0	3.56	14.2	2.85	17.9

For the 2020 financial year, the CEO's total actual remuneration was **44 times** the Australian Full time Adult Average Weekly Total Earnings (based on August 2020 data from the Australian Bureau of Statistics).

Item 2	Adoption of Remuneration Report
ASA Vote	Against

After a first strike last year (25.7% against), Seek reviewed and amended their remuneration structure this year. This removed an all-or-nothing cliff vesting approach to the performance rights and replaced it with a graduated one. This fixed one of our concerns with this structure. We believe however that the Seek remuneration still falls short since they retain a choice of options and performance rights using options-based Monte Carlo pricing models. Unusually it is up to the executives to choose between options and performance rights or a mixture of both.

The share price hurdle is also unusual in that it is calculated using the growth rate of the ASX200 over the last 15 years. Seek had used a 'spot price' (share price) at a particular date from which to calculate the new hurdle share price. Seek have changed this to a sensible Volume Weighted Average Share price (VWAP) over a 60-day period. The ASA view this revised hurdle is acceptable for a long-term performance measure, though we would prefer an accompanying financial measure.

Two of our concerns from last year were addressed in the revision of the remuneration plan, but the use of fair value to determine the quantum of performance rights remains, as does the choice of options and/or performance rights. We are therefore voting against this in this year and will encourage them to change to a conventional plan in coming years, using face value performance rights in the LTI plan

Item 3a	Re-election of Julie Fahey as a Director
ASA Vote	For

Summary of ASA Position

Julie Fahey has been on the board since July 2014 with extensive experience in commodities, software and technology and telecommunications. She is part of the Nomination committee and audit and risk committees. Julie is on three ASX listed boards as a Non-executive director and various other private organisations. Julie is a busy director but on balance falls within ASA guidelines. She has approximately one years' worth of fees in shares and is within ASA guidelines.

Item 3b	Election of Vanessa Wallace as a Director
ASA Vote	For

Summary of ASA Position

Vanessa Wallace was elected to the board in March 2017. Ms Wallace runs her own consulting firm outside of Seek but also has non-executive director and chair positions on two private companies respectively and is a Non-executive Director on Wesfarmers. Ms Wallace has a strong background in competitive strategy and finance. She has two years' worth of fees in in shares.

Item 3c	Election of Linda Kristjanson as a Director
ASA Vote	For

Summary of ASA Position

Linda Kristjanson was appointed October 9 this year and has been in the education business for 40 years. Her last appointment was as Vice Chancellor at Swinburne University since 2011. Linda currently chairs the board of the Comprehensive Cancer Centre and is a Non-executive director of Education Australia Ltd. Linda's educational background is complementary to the Seek business area and is a good choice for the board.

Item 4	Renewal of Proportional Takeover provision
ASA Vote	For

Summary of ASA Position

This item will see Seek renew its existing provisions for another three years in accordance with the Corporations Act. The absence of this provision in the constitution will allow a bidder to a) gain control of the company leaving existing shareholders as minority owners and b) gain control

without having paid a control premium to shareholders. The inclusion of the provision will allow shareholders to decide whether a proportional takeover bid is acceptable or not.

Item 5	Grant of one Equity Right to the Managing Director, Chief Executive Officer and Co-Founder, Andrew Bassat for the year ending 30 June 2021
ASA Vote	Against

Summary of ASA Position

The board seeks approval by shareholders to issue Mr Bassat with one equity right being equivalent to 25% of Mr Bassat's fixed remuneration (\$1,256,565) and is convertible to 67,520 shares valued at \$18.61 under the terms of Seek's executive remuneration plan for FY21. The terms of the grant are consistent with those outlined in the remuneration report. For the reasons outlined in our discussion in the remuneration report we will oppose this.

Item 6	Grant of Wealth Sharing Plan Options and Wealth Sharing Plan Rights to the Managing Director, Chief Executive Officer and Co-Founder, Andrew Bassat for the year ending 30 June 2021
ASA Vote	Against

Summary of ASA Position

The board seeks approval of options and rights to Mr Bassett equivalent to 25% of his fixed remuneration of \$1,256,565. This will be equally divided into options (216,649) and rights (71,558). The long-term reward is valued using the 'Monte-Carlo simulation model' which values shares at a relatively deep discount to market value. Seek calculate the price by taking the VWAP 60 trading days up to June 30, 2020. For the reasons outlined in the remuneration report we will oppose this resolution.

Item 7	Spill Meeting (Conditional)
ASA Vote	Against

Summary of ASA Position

If Seek receive at least 25% votes against the remuneration report, a resolution to spill the board will be put forward to shareholders. If this resolution receives at least 50% votes in favour of, then a meeting to spill the board will convene within 90 days from the AGM date. Given our confidence in the quality of the board members, the nature of our concerns with the remuneration do not necessitate that Seek undergo such a traumatic change. We will therefore vote against a spill if item 7 arises.

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