Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Capitalising on growing salmon biomass while exploiting prawn opportunities

Company/ASX Code	Tassal Group (TGR)
AGM date	28 October 2020
Time and location	Virtual
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Alan Hardcastle assisted by Chris Lobb
Pre AGM Meeting?	Yes, with chair Allan McCallum

The individuals involved in the preparation of this voting intention have no shareholdings in this company.

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

Summary of ASA position

Being an essential service, Tassal Group (TGR) has not been impacted in any significant manner by COVID-19. In fact, the company has managed to bed down its Queensland Tropicco prawn business successfully; not had to tap the government for JobKeeper or other financial support; and maintained its domestic salmon sales without interruption. TGR's two main focuses have been driving efficiencies in the predominantly domestic-market salmon business while also boosting fish biomass; and bedding in and expanding its Tropicco prawn operation and concomitant sales.

<u>Governance and culture</u>

Because of its sensitive aquaculture operations, TGR has had to be at the forefront of environmental issues and does employ rigorous ESG (enviro sustainability governance) practices. The company, as judged by ASA guidelines, needs to improve gender diversity, notably in KMP ranks and the chair and board are very aware of the need to address this area more fully. Reflecting the company's critical need to ensure high level sustainability credentials, it has developed a vaccine to reduce antibiotic usage in the fight against a POMV (pilchard orthomyxovirus) virus. In FY21 antibiotic use should be negligible. ASA has drawn attention to the need for TGR to develop a skills matrix covering its board members. The company is working through a period of board renewal and a skills matrix would enable shareholders to have a better understanding of the specialist skills available to the board via its directors.

<u>Financial performance</u>

Aquaculture, as noted by the CEO in his FY20 results briefing, is a capital intensive industry. Capital expenditure of $125m is planned for FY21, consistent with recent years. While driving efficiencies was the main focus of the TGR's salmon business; the prawn business investment and expansion continued unabated. Operating cashflow was down markedly (44.5%) due a jump in working capital needed for (largely prawn) growth - in order to underpin FY21 earnings. While FY20 revenue at $563m was flat and in line with FY19, EBITDA jumped 23% to $138.6m. Unhappily for shareholders, FY20's significantly lower 30 June closing share price translated to total shareholder returns (TSR) of -26%, compared with 2019's 33%. FY20 dividend held steady at 18c, partly franked at 25%, presently yielding about 5% p.a. A dividend reinvestment plan (DRP) applied to the final dividend, paid September 2020, with participating shareholders receiving a 2% discount.

Key events

In August 2019 Tassal undertook a $108m share placement to institutional and sophisticated investors while offering a share purchase plan (SPP), to retail shareholders (detailed in the 2019 VIs). The ASA objected to the potential dilutionary effect of the $25m limit as this did not reflect the relevant proportions held by institutions and retail shareholders at the time. In the event, the SPP raised $17.4m with retail shareholders paying less for their shares than the institutions under a volume average weighted price (VWAP) arrangement. A further 2% discount to the issue price was offered as a further incentive. The ASA prefers capital raisings to be by renounceable rights issue as this is the fairest arrangement for retail shareholders as all shareholders (including those who not have the cash to take up a SPP) benefit in proportion to their holdings.

Key board or senior management changes

The past 24 months has been a period of board regeneration and there's more to come. Long time, highly experienced (in financial matters) non-executive director (NED) Trevor Gerber has resigned from the board due to time constraints. And chair Allan McCallum will step down from the board in FY21. The company had already largely addressed these skill and knowledge losses with the appointment in 2020 of two new independent NEDs in James Fazzino (finance) and Richard Haire (agribusiness).

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	69.1	58.4	57.3	58.1	48.4
UPAT ($m)	64.2	56.6	57.9	64.8	48.5
Share price ($)	3.45	4.90	4.13	3.81	3.98
Dividend (cents)	18	18	16	15	15
TSR (%)	-26%	23.0%	12.6%	-0.5%	23.9
EPS (cents)	34	33.01	33.11	37.14	32.78
CEO total remuneration, **statutory** ($m)	1.263	1.211	1.261	1.248	0.754

For 2020, the CEO's statutory total remuneration was **14 times** the Australian Full time Adult Average Weekly Total Earnings (based on September 2020 data from the Australian Bureau of Statistics).

Item 2	**Remuneration report**
ASA Vote	**Against**

CEO Remuneration Framework

2020	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	0.784	65%	0.784	47%
STI - Cash	0.236	19%	0.472	29%
STI - Equity	0.000	0%	0.000	0%
LTI	0.196	16%	0.392	24%
Total	1.216	100.0%	1.648	100%

*This table and its figures have been confirmed by the company.

Summary of ASA position

The company's short term incentive (STI) scheme for the CEO and key management personnel (KMPs) is linked to the company's net profit after tax (NPAT), meeting 'strategic objectives and assessed personal effort and contribution'. Target STI range is valued at between 30 and 60% of the CEO's fixed remuneration and 15 to 30% of the KMPs' fixed remuneration. The CEO and KMPs received 100% of their maximum entitlements (FY19 89.18%) in a year when shareholders suffered a material negative TSR. The STI's operational targets are vague and payments are delivered as cash, whereas the ASA would want a reasonable proportion paid as shares to better align management reward/risk outcomes with that of retail shareholders.

While the ASA asks that companies use at least two measures and one being the inclusion of a total shareholder return (TSR) measure, Tassal's long term incentive (LTI) scheme is based 50:50 on earnings per share (EPS) and return on assets' (ROA) yardsticks. Also, performance hurdles are assessed over a three-year period whereas the ASA asks for a minimum of four years.

ROA applies to 50% of performance rights granted in FY21 with vesting testing being conducted in FY23. If the company's ROA for FY23 is less than 8% then no rights will vest; between 8 and less than 10% the proportion is increased pro rata to between 50 and 100%; equal or greater than 10% all rights will vest. If the compound annual EPS rate over the performance period compared to base year is less than 4% no rights vest; between 4 and less than 10% vesting is pro rata between 50 and 100%; and greater than 10% then all rights will vest. The ROA and EPS performance hurdles have been made easier when compared with the FY19 remuneration scheme.

On a number of fronts TGR's remuneration scheme fails to meet the ASA's guidelines and from a retail shareholder perspective it is not transparent and easily understood. Actual CEO total remuneration is not disclosed; TSR is not used as one of the LTI measures; STI is paid 100% cash (ideally should be at least 50% equity); and performance hurdles are assessed over three-years rather than four.

In the interests of retail shareholders who require a transparent and easily understood remuneration scheme that's closely aligned to shareholders' interests, the ASA votes against the existing remuneration scheme.

Item 3	Re-election of John Watson as a director
ASA Vote	For

Summary of ASA position

John Watson served on TGR's board from October 2003 until October 2015 as a non-executive director (NED). He then returned to the board in this role from March 2018 and is considered independent under current guidelines. He is chair of the audit and risk committee and a member of the nominations committee. John Watson has a significant stake in TGR (190,841 shares) and while he has previously held a number of other board positions, TGR is today his only NED role. At a time of board change, and with his wealth of both industry and TGR knowledge, the ASA supports John Watson's re-election.

Item 4	Election of Richard Haire as a director
ASA Vote	For

Summary of ASA position

Appointed to the board early 2020 as an independent NED, Richard Haire has more than 29 years' agribusiness experience and holds a Bachelor of Economics degree; diploma in corporate management; and a company directors' diploma. He is chair of the Cotton Research and Development Corporation; Reef Corporate Services Limited (RCT ASX) and Endeavour Foundation. Richard Haire also serves as a NED of BEC Stockfeed Solutions Pty Ltd. Chair of the remuneration committee and a member of the audit and risk committee, he has taken a significant stake in his first year as a NED holding 17,000 shares. Despite what appears to be a significant workload, the ASA supports Richard Haire's election.

Item 5	Election of James Fazzino as a director
ASA Vote	For

Summary of ASA position

James Fazzino was appointed an independent NED of the company in May 2020. Having held CEO/MD roles with Incitec Pivot from 2009 to 2017 where he became skilled in various international businesses, James Fazzino is currently a NED of APA Group (ASX APA) and Rabobank Australia Ltd; and a chair of Implant Solutions Pty Ltd (Osteon Medical) and Manufacturing Australia. He holds a Bachelor of Economics and is a fellow of CPA Australia. James Fazzino has quickly shown himself to be committed to TGR's interests in buying 54,800 shares on the market in his first year as a NED. The ASA supports his election.

Item 6	**Long-term incentive plan**
ASA Vote	**For**

Summary of ASA position
An important safeguard to shareholders holding interests in ASX listed entities, in particular retail shareholders, is the limitation of the amount of equity securities an entity can issue in any 12-month period, without the approval of its shareholders. As a general rule, for entities within the ASX 300 such as TGR, they are only permitted under ASX listing rules (LR) to issue up to 15% of fully paid securities at the start of that 12-month period without shareholder approval.

However, there are certain nominated capital issues that can be excluded from this calculation, where they fall under one of the exceptions specified in the LR and they meet any requirements to use this exception. In relation to this agenda item, the company is seeking to obtain the necessary shareholder approval to issue securities under its employee incentive scheme, which if approved by shareholders, would allow the company to exclude any securities issued under the scheme for three years from approval being given.

ASA support is given to such 'procedural' approval requests on the basis that it encourages companies to reward its directors, senior management and employees with the issuance of securities in the company, thereby further aligning interests with that of shareholders, whilst retaining the flexibility to issue further capital under the 15% limitation rule. Retail shareholders are also provided additional protection by the requirement for companies to obtain annual approval of their remuneration report, which would include the issuance of any securities under the employee incentive scheme during that preceding 12- month period. Additionally, any issuance of securities to directors of the company would, under most circumstances, also require specific approval.

Item 7	**Long-term incentive plan - grant performance rights to Mark Ryan**
ASA Vote	**Against**

Summary of ASA position
In line with the LTI scheme, the company is seeking approval to issue 177,154 performance rights to its CEO Mark Ryan. That number is predicated on 80% of his total fixed remuneration, being $672,000, divided by the average volume weighted closing price of shares for the three months to 1 July 2020 ($3.7933).

To receive any of this award, the company must achieve a ROA over the next three years of at least 8% (9% FY19) and/or a compound average EPS growth rate over the same three years of at least 4% (7.5% FY19). To receive the maximum 100% the company must achieve an ROA over the next three years equal to or greater than 10% (FY19 11%) and/or a compound average EPS growth rate over the same three years of equal to or greater than 10% (FY19 12.5%).

The ASA's concerns regarding TGR's remuneration scheme have been outlined in item 2. Therefore, the ASA votes against this item.

Item 8	**Amendments to constitution**
ASA Vote	**For**

Summary of ASA Position

This agenda item relates to updating the company's constitution to reflect recent developments and amendments to ASX Listing Rule requirements such as allowing shareholders to cast their votes directly without the need to appoint a proxy and the holding of electronic meetings. Specifically, the amendments relate to restricted securities; hybrid meetings; direct voting and minor changes including typographical errors. Based on our review there appears nothing controversial in these proposed amendments and it is appropriate companies ensure their constitution is reviewed and updated from time to time. The amended constitution with marked up changes can be found at: tassalgroup.com.au/investors/announcements/agm/