



A difficult year – and that’s before COVID and OPEC

Company/ASX Code	Viva Energy Group / VEA
AGM date	Monday 6 July 2020
Time and location	11am at https://agmlive.link/VEA20
Registry	Link
Webcast	Yes, full virtual meeting
Poll or show of hands	Poll on all items
Monitor	John Whittington
Pre AGM Meeting?	Yes, with Chair Robert Hill, Company Secretary Julia Kagan, and Chief People & Technology Officer Amanda Fleming

Item 1	Discussion of the Financial Report, Directors’ Report and Auditor’s Report
ASA Vote	No vote required

Summary of ASA Position

Viva Energy was listed on the ASX on 13 July 2018 with previous owner, Vitrol Investment Partnership still owning approx. 45% of the company. Viva Energy supplies fuel through a national network of retail sites, the majority of which are Shell branded, and directly to commercial customers. It also owns and operates Shell’s old refinery at Geelong.

Financial performance

The 2019 calendar year (which is also Viva’s financial year) was a difficult one for Australian oil suppliers in Australia with refinery margins getting hit hard due to global supply issues. Viva’s refining margin averaged US\$6.6/BBL against an average of US\$10.2/BBL only two years earlier.

In 2019, Viva’s total revenue increased 1% to \$16.542bn. Reported net profit after tax (NPAT) for the year was \$113.3m (down 80% but the FY18 figure included a one-off deferred tax benefit of \$358.4m so, excluding this, it was only down 49%). The company claimed an underlying NPAT based on replacement cost of \$135.9m (down 54%). The various business areas were only reported at EBITDA (earnings before interest, tax, depreciation, and amortisation) level with retail down 7% to \$564.3m, commercial down 8% to \$296.5, refining down 6% to \$117.0m, and supply, corporate and overhead costs reduced by 37% to \$333.3m.

Cash flow from operations was up 40% to \$402.7m. Dividends paid during the year were 6.9 cents per share, up from zero (post listing) in 2018. Total shareholder return to 31 December was 10.5% (6.7% capital return and 3.8% from dividends) however, subsequent to year end, share prices have declined 14%.

Key events

Subsequent to year end the company has announced and concluded the sale of its 35.5% shareholding in the Viva Energy REIT (ASX:VVR) which owns service station properties leased to Viva Energy as well as a 50% interest in the Liberty Oil retail business. This realised \$680m after tax and the proceeds were intended to be used to buy back Viva Energy (VEA) shares however the buy-back has been delayed due to the COVID-19 outbreak.

Key Board or senior management changes

During the year Megan Foster was appointed Executive General Manager Retail; Jodie Haydon, General Manager People and Culture left the company and was replaced by Amanda Fleming as Chief People and Technology Officer. Both new appointments were from outside Viva and have significant retail experience.

Subsequent to year end, the Chief Operating Officer left the company and will be replaced by Thys Heyns, the current Executive General Manager Refining. Thys will be replaced by Dale Cooper, another external appointment.

ASA focus issue

Board composition and director skills seem appropriate. Remuneration disclosure is generally poor (see below for details). Executive and director shareholdings (“skin in the game”) are generally satisfactory – the company has a policy that all (other than Vitol nominee directors) should have the equivalent to one year’s fees after five years. We have yet to have any concerns regarding shareholder participation.

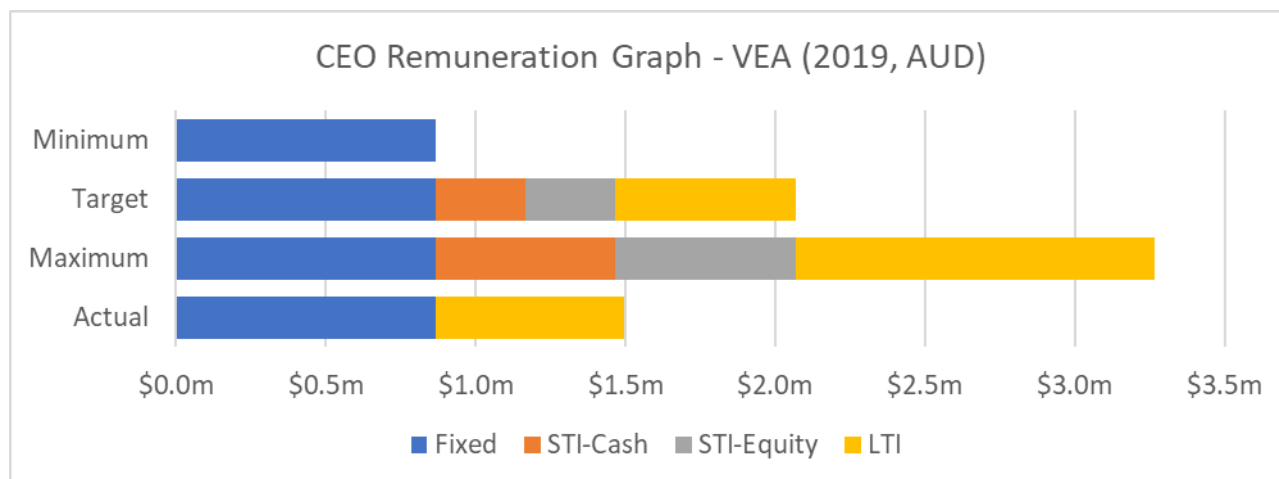
Summary

(As at FYE)	2019	2018	2017
NPAT (\$m)	113.3	579.6	354.9
UPAT (\$m)	135.8	293.0	361.0
Share price (\$)	1.92	1.80	N/A
Dividend (cents)	6.9	0	N/A
TSR (%)	10.5	-28% (from IPO price)	N/A
EPS (cents)	7.0	15.1	N/A
CEO total remuneration, statutory (\$m)	1.497	5.840	Not disclosed

For 2019, the CEO’s total actual remuneration was **17 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2019 data from the Australian Bureau of Statistics).

Item 2	Adoption of the Remuneration Report
ASA Vote	Against

Summary of ASA Position



Source: Australian Shareholders' Association and Viva Energy 2019 Annual Report

The presentation of the Remuneration Report is understandable and gives a good sense for how they have structured remuneration. Unfortunately, however, it does not provide sufficient detail of the 2020 short term incentive (STI) scheme or any detail of the 2020 long-term incentive (LTI) scheme. So shareholders are being asked to sign a blank cheque in supporting this item.

The report also has no table of actual remuneration, so we don't know what the executives actually took home in 2019.

Viva's executive remuneration structure has three ongoing components – fixed remuneration, STI, and LTI. Until 1 January 2020 there was also a generous residual LTI scheme initiated by their previous owners and disclosed in the prospectus to the IPO.

We have checked the CEO's fixed remuneration of \$896,000 against similar sized companies and it is significantly below the median of \$1.324m.

The STI can range from 0-134% of fixed remuneration (0-100% for CFO and 0-107% for the COO) and, in 2020, will be based on a number of undisclosed measures (60% financial) and delivered 50% in cash and 50% in share rights, half of which vest 12 months after the cash component is paid and the other half 12 months later.

The 2020 LTI scheme is not described in the remuneration report, however it is described in the Notice of Meeting for the AGM. It is similar in structure to the 2019 scheme and is discussed in more detail below under item 4.

We are concerned about the fees paid to non-executive directors (NED). The Godfrey Remuneration Group's All Industries KMP Remuneration Guide for 2019 shows that for companies with a market capitalisation between \$2-5 billion, the median payment for a board Chair is \$308,000 whilst the Viva Chair gets \$400,000, and that the median payment for a NED is \$162,000 whilst Viva independent NEDs are paid \$217-235,000. So it would seem that Viva directors are paid about 30% more than the average for similar size companies.

As for last year, whilst we believe the remuneration structure to be good in a number of areas, we cannot support the report for the following reasons:

- Insufficient information about the 2020 plans
- No table of actual remuneration
- Incentives are based on underlying earnings
- Concerns with the LTI scheme and disclosure outlined under item 4
- High NED fees

Item 3a	Re-election of Jane McAloon as a Director
ASA Vote	For

Summary of ASA Position

Ms McAloon has an extensive business, government, and regulatory experience in the energy, infrastructure, and natural resources sectors and was appointed to the board in June 2018. She has a shareholding equivalent to 60% of her total remuneration.

She is a director of two other ASX listed companies (Home Consortium and United Malt) and unlisted subsidiary Energy Australia and the Allens Advisory Board. We do not consider this workload excessive.

We believe that Ms McAloon is well qualified to contribute to the board and will support her election.

Item 3b	Re-election of Arnoud De Meyer as a Director
ASA Vote	For

Summary of ASA Position

Dr De Meyer is an academic who has been President of Singapore Management University, a Professor in Management Studies at the University of Cambridge, a Professor at INSEAD, a Director of Judge Business School, and founding Dean of INSEAD Singapore. He was appointed to the board in June 2018 and has a shareholding equivalent to 96% of his total remuneration.

He is not currently a director of any ASX listed company but is Chair of Temasek's Stewardship Asia Centre and on the board of Singapore Symphonia Company. We do not consider this workload excessive.

We believe that De De Meyer is well qualified to contribute to the board and will support his election.

Item 4	Grant of Performance Rights to Scott Wyatt under the Company's Long Term Incentive Plan
ASA Vote	Against

Summary of ASA Position

This is for the issue of a maximum of 556,121 performance rights worth \$1.2m (based on a weighted average price over the period from 1 January 2019 to 31 December 2019) and is equivalent to 134% of fixed remuneration. Due to the recent decrease share price the award is now worth approximately \$0.9m.

Half of these rights will vest based on total shareholder return (TSR) from 1 January 2020 to 31 December 2022 relative to the ASX100. If TSR is below the 50th percentile then no rights will vest. If TSR is between the 50th and 75th percentile then a linear scale will apply from 50% vesting at the 50th percentile to 100% vesting at the 75th percentile. If TSR exceeds the 75th percentile then all rights will vest.

One quarter of these rights will vest based on free cash flow (FCF) from 1 January 2020 to 31 December 2022 and one quarter will vest based on the return of capital employed (ROCE) over the same period. If the (undisclosed) targets are not met than no rights will vest. If the result is between the target and the stretch target, then a linear scale will apply from 50% vesting at the target to 100% vesting at the stretch target. If the result exceeds the stretch target, then all rights will vest.

A pro-rata number of rights will lapse if he ceases employment as a "good leaver" before the rights vest. There are no voting rights or entitlements to dividends on unvested rights.

The quantum of this award is not unreasonable however we have a number of concerns about the structure and disclosure associated with it, namely:

- The performance period is only three years (we cannot see how the oil industry sees three years as "long term")
- Poor disclosure of how the FCF LTI component is calculated and how both the FCF and ROCE components are actually measured
- All rewards can be paid if shareholder returns are negative
- The aggressive vesting schedule
- The ability for the Board to vest all rights on a change of control

As a result, we do not support this resolution.

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

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