Australian Shareholders' Association

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

Coming into Focus

Company/ASX Code	**Vocus/ VOC**
AGM date	Friday 23 October 2018
Time and location	10 am AEDT Virtual https://web.lumiagm.com/360903082
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Mike Robey assisted by Steve Van Emmerik
Pre-AGM Meeting?	Yes, Zoom with Chair Bob Mansfield and CoSec Simon Lewin

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

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

Summary of ASA Position

Vocus is about two thirds the way through a transformation process. Much of this has been the migration off legacy non-integrated network and support systems and the building of their own fibre-based services on the NBN core. Their branding has changed to simply Vocus, from Vocus Group and Vocus Communications, accompanied by new logos and brand livery. The core of the new Vocus is the suite of (mostly their own) fibre and network solutions which compete in the business sectors with Telstra in particular. This is the high margin part of Vocus and comprises 61% of the EBITDA and growing. Vocus has been successful winning new business this year with bigger, more sophisticated corporates. Deals have been on average 24% larger this year.

The second component is to turnaround the cost challenger retail business, which like all consumer telco businesses is struggling with profitability as the high margin legacy voice and copper based-ADSL broadband migrate to the lower margin NBN. In the telco industry, the term coined for this loss of margin as they move to next generation NBN services is called “NBN headwinds”. The consumer retail segment has mostly completed this period of declining revenues and uses the cost challenger brands Dodo and iPrimus. To reduce churn in this price sensitive market segment it resells bundles of energy, NBN broadband and mobile supplied by other providers. The decline in the consumer service business is bottoming out, as they approach the completion of the copper to NBN service migration.

The third component is the small and medium business segment (SMB) served by the struggling Commander and Engin brands. For similar reasons as the consumer segment these are also suffering revenue decline as customers move off legacy copper voice and data services to VoIP services (voice transmitted using data packets). The SMB segment is two or more years away from growth as it completes its migration from legacy copper to NBN broadband.

The final segment is a consumer and business telco in NZ which is the country's third largest, is profitable and growing well.

Covid put a small spanner in the works, introducing problems with its Philippine call centres where staff were sent home, but revenue decline has stabilised. Covid provided an opportunity for Vocus to respond to the business customers' increased demand for internet bandwidth, successfully stress testing its mission critical data services and positioning it as a credible alternative to its major competitors. It also accelerated the migration of retail customers off the legacy copper services to fast broadband-based ones.

Governance and culture

Vocus has a challenger company mindset and an apparent appetite for simplification. As a result of mergers and acquisitions of past years it has a dog's breakfast of legacy systems and is in the process of migrating to fewer, integrated digital-ready ones. It publishes an annual sustainability report which covers all areas of ESG but is mostly silent on accountabilities and targets. Their most material environmental factor is the energy demand of their 13 data centres, followed by materials used in their business. They have also identified the problem posed by rising sea levels on the optic fibre cable landing stations in Australia, NZ and Singapore. They have what seems to be a solid program of work to reduce energy consumption in all their sites, especially in the data and network management centres.

Gender diversity features in all their publications but performance here is poor, with only 1 female on the board of 8 and year on year declines in the executive leadership and senior manager levels. They appear to have a problem with retention of female board members, having lost two prior to them serving full terms. It is not clear if they have hard targets in the senior levels.

They are a member of the Telco Together Foundation, an industry group, which is taking a joint approach to the control of modern slavery in their common telco supply chain. Their first report on this will be published in this financial year. Since they resell energy, they can piggyback on the suppliers for green energy options.

Financial performance

Revenue for the year is $1,753m is down 1.1%, because of the drag of the retail business (NBN headwinds!), but the NZ operations and the network services (VNS) recurring revenues are growing around 6% to $626m and $378m respectively. Underlying EBITDA is $361m, split $223m, $80m and $62m between VNS, NZ and retail respectively. Margins in these units are 34.2%, 16.4% and 10.7% respectively, which underlines the importance of the VNS business to their success.

Total VNS revenue was down this year, despite the growth in recurring revenue, due to the one-off revenue from the Singapore cable project they managed last year. Their debt level did not permit them to take equity in this new undersea cable. It stands at $966m with a further $276m drawn down capability and is travelling well below financial covenant measures of gearing, leverage and interest cover.

Statutory NPAT was -$178.2m, down from +$34m in 2019 due to a $202m impairment charge for goodwill of the retail brands, which have been in decline. Underlying NPAT was down 4.2% to $101.1m

No dividends were paid for the year.

Key events

The bushfires and Covid outbreak stress tested Vocus this year because for any widespread emergency event, the requirement for telecoms is amplified and made more critical. The networks proved resilient and by their own account performed flawlessly. These are important tests for a challenger since in most emergencies, the legacy provider Telstra becomes the provider of last resort and enjoys reputational reinforcement and reduced churn. The fact that a challenger can perform as well in emergencies provides Vocus a good case study

Key Board or senior management changes

There were no changes at board level, but The General Counsel and Company secretary Ms Jegathesan, one of the few women at senior executive level, resigned to take up another position. She was replaced by Simon Lewin, who was her deputy.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	-178.2	34.0	61.0	-1465	74
UPAT ($m)	37.0	105.5	127.1	152.3	102
Share price ($)	2.95	3.27	2.31	3.37	8.42
Dividend (cents)	0	0	0	6.0	17.5
TSR (%)	-9.8	41.5	-31.5	-59	49
EPS (cents)	6.0	5.4	10.6	-237.6	18.6
CEO total remuneration, actual ($m)	1.096	1.126	N/A	1.861	0.450

For [insert year], the CEO's total actual remuneration was **11.9 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

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

Summary of ASA Position

Last year's AGM approved a remuneration structure for the years 2019 to 2023. The plan contains no variable remuneration payments until Jul 2021 and with subsequent payments in 2022 and 2023. It comprises the following:

A maximum of 7,500,000 options priced at the VWAP for Jul 2018, $2.38, vesting as follows:

- Jul 2021. If absolute TSR is 50%, 1,375,000 options will vest, priced at $2.38
    - If absolute TSR is below threshold of 50% growth, options don't vest
    - If absolute TSR is 100%, 3,750,000 will vest, priced at $2.38

- If absolute TSR is between 50% and 100% the number of options is prorated between these two limits

- Jul 2222. Similar scheme as above but only 1,375,000 options on offer
- Jul 2023. As for Jul 2022

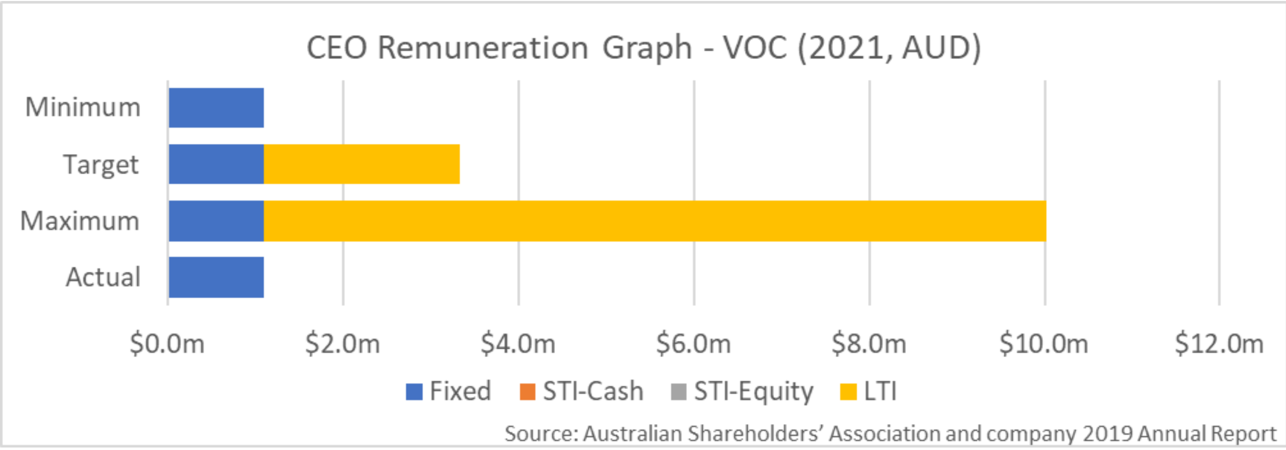
The options due to be tested on Jul 1, 2021 options are currently (Oct 2020) in the money, the share price having risen by 53.7% to $3.66.

Our concerns with the scheme last year were twofold. The starting point for basing the share price gain was at an all time low in the price history of the company. $2.38 has only been reached once since then, during the Covid price plunge in March 2020 and then only for 12 days before recovering. The second concern was the lack of another financial measure to balance the sometimes flukiness of absolute TSR measures. Despite these concerns we voted for the package as part of the 98.3% of shareholders who voted in favour. Hence the die was cast last year on this 3 year plan and we will vote in favour this year. It must be kept in mind that the CEO and key executives under this plan have foregone an STI for two years now.

CEO rem. Framework for FY21	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.097	34.0	1.097	11.0
STI – Cash	0.0		0.0	
STI – Equity	0.0		0.0	
LTI	2.231[1]	66.0	8.925[2]	89.0
Total	3.226	100.0%	10.022	100%

[1]calculated as the achievement of threshold share price growth; 50% to $3.57 from plan start $2.38 by Jul 2021, when 1.875K options vest

[2]calculated for the achievement of maximum share price growth; 100% to $4.76 from plan start $2.38 by Jul 2021 when 3.975K options vest



Item 3	Re-election of David Wiadrowski as a Director
ASA Vote	For

Summary of ASA Position

The Vocus board is a laggard in gender balance by ASX standards, having only a single female and an inability to retain female Board members once recruited. Whilst voting against re-election of sitting board members would send a message to the Chairman that he should do better, we recognise that it takes some years before board members hit their straps and can contribute to their fullest.

Mr Wiadrowski is up for his first re-election, having been appointed first in 2017, as part of a full Board renewal. He comes with an ideal background for a Directorship of a challenger telco. He was a partner of PwC and led their telco practice for 8 years, giving him inside access (as lead auditor) to the issues of both the industry in general and to specific telcos. He also has operational experience as a COO of the assurance arm of PwC. Mr Wiadrowski is a Director of three other unrelated companies (oO!media, CarSales and Life360) and is not in our opinion overloaded. He holds only 23K shares in Vocus and is therefore well under our minimum shareholding benchmark, but he is obliged under a 2019 Vocus board policy to have at least the same value in shares as his annual salary within 3 years, presumably from the date of the policy. We therefore expect him to comply and purchase the required minimum in the coming two years.

We therefore support his re-election.

As a postscript, the Vocus Annual Report spells out in some detail the specific skills brought by the Directors, which is useful for shareholders to be able to assess the skills relevant to the role. This we applaud

Item 4	Re-election of Bruce Akhurst as a Director
ASA Vote	For

Mr Akhurst has a long background as a managing partner with the law firm Mallesons, prior to moving into and up the Telstra senior executive ranks, first in Legal then in operational roles of Wholesale and Media, as well as becoming chairman of the complex consortium Foxtel. All this background is well suited to Vocus. He was first appointed to Vocus in Sep 2018 as part of the board refresh and is a Director at Tabcorp. He is Chairman of the Peter MacCallum cancer centre, executive Chairman of Adstream Holdings, an unlisted advertising services company, as well as a Director of an investment company Paul Ramsey Holdings. He is also a council member of the RMIT. If we were to treat the unlisted company Chairman roles and foundation roles as lower workload to a public company director role, he is still fully loaded in our opinion. Given that two of these roles are for the good of the wider community and not for profit, we will support his re-election.

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