Australian Shareholders' Association

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Company/ASX Code	Vocus/VOC
AGM date	Tuesday 29 October 2019
Time and location	10am Warrane Theatre at the Museum of Sydney
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Mike Robey assisted by Hans Ha
Pre AGM Meeting?	Yes with Director Julie Fahey and Company Secretary Ashe-lee Jegathesan

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

Summary of ASA Position

Vocus is a full service telecoms provider operating in the ANZ area, which is pursuing growth by challenging the large incumbents Telstra and Optus in the Enterprise and Government sectors (E&G) and is seeking in addition to turn around its ailing Retail segment in Australia. It has invested heavily in its fibre and networks and taken on debt of over a $1 billion. The principal narrative of the business is that it has a largely new modern network with unused capacity, great fibre assets and a low 6% market share in the high margin E&G and wholesale segments. There is claimed to be strong upside in the complex and high-barrier-to-entry market dominated by a couple of strong incumbents. The retail and NZ businesses are peripheral legacies of the progressive acquisition over time of a number of former telco challengers, namely Vocus, M2 and Nextgen among others.

All bar one of the directors, which in 2017, oversaw a huge $1.5 billion write-off of goodwill have been replaced by the new Chair, Mr Mansfield, who is an experienced telecoms CEO and MD (Chief Executive Officer and Managing Director) and is a former Chair of both of the competitors.

Vocus recruited an experienced Australian telecoms hand, Kevin Russell – as MD and CEO. Mr Russell, in the prior financial year, put together a 3-year turnaround strategy for the ailing retail business and a high growth strategy for the networks business. This is now entering its second year, with relatively little to show, though it is in its early days. Vocus has in the meantime developed solid experience in undersea cable projects and has completed, on time and under budget, a contracted build of the Coral Sea cable and their own Australia-Singapore cable. It put up its NZ business for sale in 2018 and withdrew within 6 months due to inadequate offers. The entire Vocus Group business was subject to takeover offers during the course of this 2019 financial year, but they too were unsuccessful.

Governance and culture

Financial performance including dividends and shareholder returns

Vocus has posted underlying revenue growth of 0.4% to $1,892m and earnings before interest, tax, depreciation and amortisation (EBITDA) decline of (1.8%) to $360m in this first full year of their turnaround. Total shareholder return (TSR) was positive at 41.5% based on point measures at start and end of the financial year, though the average TSR was (0.3%). No dividends were declared. Revenue is growing strongly in the network services division (Vocus Communications brand) by 23% to $710m, declining in the retail division (dodo, iPrimus and Commander brands) by (15%) to $826m and growing slowly in revenue by 4.5% to NZ$380m in the NZ division, which comprises Vocus communications and 2Talk for Corporates, and Slingshot, Orcon brands for Consumer. After allocation of the considerable costs in the business, the underlying EBITDA for the three major divisions are $203m for network services, at 28.6% margin, $103m at 12.5% margin for retail and NZ$63m at 16.6% margin for Vocus NZ.

The net cash from the business is exceeded by the investing cash and after adding in interest from borrowings and financing cash flow adjustments they maintain a very small net positive cash flow of $29m.

In the Australian retail business, Vocus is losing revenue from both the legacy voice and data market as customers disconnect their fixed phones and ADSL broadband connections. This loss is not offset by gains in the substituted low margin NBN broadband services. They have also ceased aggressive selling of retail NBN, in order to stop losses since the churn rate of these challenger brands remains high. There is also sunset date for each NBN region, at which time customers must switch from ADSL or Hybrid fibre CoAx. In addition, the Commander business, which services the Small and Medium business segment, is also in decline.

The large opportunity for Vocus lies in its Network Services to large Enterprises and Governments, where it has only 6% market share and an increasingly competitive asset footprint. It has also the fast follower capability of leapfrogging outdated legacy technologies by employing the latest network technologies. It thereby has the opportunity to operate at a lower cost of doing business than their large competitors, Telstra and Optus. It has a tie up with Optus to resell mobile, including 5G, in order to complete the required product set.

The financial guidance is for no change in 2020, so shareholders must trust that the turnaround will succeed in later years.

Key events

Two separate takeover offers occurred toward the end of the financial year, by EQT Infrastructure and AGL. These were accompanied by large spikes in share price but failed during the due diligence phase. Vocus has over $1 billion in debt, a necessary requirement for an infrastructure heavy telecommunications business, in large part in order to fund its higher margin Network Services expansion, which may be proving indigestible to many suitors.

Vocus also became the subject of a class action this year stemming from what is claimed to be poor continuous disclosure during the period November 2016 to May 2017, by providing misleading financial guidance for 2017 financial year (FY17).

The Vocus retail business was carved out as a standalone business during the year to provide focus for the division to improve on declining performance, as well as presumably making disposal simpler in the event of takeover offers.

Vocus renegotiated a 5-year resale agreement with Optus mobile, for use in both retail and importantly, the Enterprise and Government market.

The Vocus built Australian-Singapore cable went live this year ahead of schedule and budget, adding 60 terra byte capacity to their International network. This connects WA to Singapore, an Asian fibre hub.

Key Board or senior management changes

Rhoda Phillippo, being one of only two women on the Board of 8 members, left during the course of the year, well within the normal 3-year term, leaving the Board with only a single woman. Jon Brett, a Vocus Board member of 10 years (and thus in place during the abysmal 2017 year in which $1.5 billion was written off) also left on the same day, apparently as part of Board renewal. This saw Bruce Ackhurst and Matthew Hanning enter as their replacements. In answer to questions we raised at the last AGM on gender diversity, we were led to believe that a new female Board member may be appointed during the financial year. This did not occur, nor is there any mention in the coming AGM.

ASA focus issues

We have covered ***gender diversity***. This is a fail for Vocus at the Board level, which under Mansfield has lost both Rhoda Phillippo and prior to her, another short–duration female Board member, Christine Holman. There appears to be a pattern developing here of a Board unfriendly to women.

Skin in the game

Vocus complies with ASA policy across the Executive and the Board. There are requirements for Executives to own equity in Vocus, amounting to 150% of fixed remuneration in 5 years for the CEO/MD and 75% for other key management personnel (KMP).

Directors must hold 100% of base fees within 3 years.

Remuneration

The remuneration structure for the new CEO and Executives is described below and is aligned with shareholder interests, though it uses only the single measure of absolute TSR as a hurdle. It is unusual in that there is no short-term incentive (STI), which means the company has determined that a greater percentage of the total remuneration is at risk than would be under conventional schemes.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	34.0	61.0	-1465	74	20
UPAT ($m)	105.5	127.1	152.3	102	18
Share price ($)	3.27	2.31	3.37	8.42	5.77
Dividend (cents)	0	0	6.0	17.5	7.3
TSR (%)	41.5	-31.5	-59	49	N/A
EPS (cents)	5.4	10.6	-237.6	18.6	19.0
CEO total remuneration, actual ($m)	1.126	N/A	1.861	0.450	N/A

For 2019 the CEO's total actual remuneration was **12.8 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

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

Summary of ASA Position

The CEO and new KMP incentive plans are very simple. There are also legacy plans in operation (which we will not discuss here) for those executives who have remained in the business prior to the new CEO and Board. The package for Mr Russell and the MD is fixed remuneration of $1.126m plus a one-off grant of options in three tranches, with no STI at all. This modest take home pay will remain so until July 2021.

The test period for all three tranches is the three years FY19 to FY21. Half or 50% of the options granted are capable of vesting in 2021; the next 25% at end FY22 and the final 25% at the end of FY23. The exercise price is the volume weighted average price (VWAP) for the month of July 2018, namely $2.38. Options vest if the absolute TSR exceeds the hurdle of 50% cumulatively for the 3-year period. The maximum reward occurs at 100% TSR. Any TSR growth in between is computed by straight line interpolation. The exercise period ceases 31 Aug 2025. The quantum of options in total is 7.5m for the CEO and between 2.0m and 2.7m for the other KMP. The options are valued at about $1.00 each, so yielding $7.5m for the CEO and between $2.0m and $2.7m for the other KMP.

One difficulty with this scheme is the use of a single measure, absolute TSR, with no accompanying financial measure, such as return on capital employed or EBITDA, reflecting the capital intensive nature of the business. The payout is pivotally dependent on the initial VWAP period, which in this case happened to be at an historic 10-year low in the share price. We pointed this out at the 2018 AGM when the plan was approved by shareholders. In addition, the Board has given itself the right to adjust the TSR for what they judge are circumstances outside management control. We will carefully watch this space to ensure fair play. Note also the difference this year mentioned above between TSR calculated as a share price difference on two dates and that of an average over the 12 months, so the computation method is also important to lock down.

No options can vest prior to July 2021 and then, should they achieve the TSR hurdle, the reward will be based on the differential of the then share price and $2.38, so we have left the opportunity for long term incentive at zero.

Item 3	**Ratification of change of Auditor**
ASA Vote	**For**

Summary of ASA Position

ASA has long promoted auditor change and the adoption of PwC is in keeping with this principle. In addition, the prior auditor Deloitte's was the auditor which identified the sudden crippling goodwill impairment of $1.5 billion in 2017, after years of audits without significant write downs. We are thus in favour of the change.

Item 4	**Re-election of Robert Mansfield as a Director**
ASA Vote	**Against**

Summary of ASA Position

Note previous discussion about the failure to build a new Board with adequate gender diversity. Mr Mansfield effectively started with a clean slate on which to build a new Board. He had removed all of the previous M2 and Vocus (pre-merger) Board members bar one, leaving the opportunity to attract talented female Board members. One well qualified woman Ms Holman, retired within a year and another Ms Phillippo, within three years of service. We also note that in Mr Mansfield's biography accompanying his re-election nomination there is no mention of the period where he was deputy Chair of Allco Finance, which in 2008 went into liquidation owing $1.7 billion to its shareholders. Even though this is long in the past, there are references to his period at Optus and Telstra prior to this. In the current year the only Board member facing re-election is Mr Mansfield, so we take this opportunity to recommend against his re-election as a protest to his inaction in working towards addressing the gender imbalance so obvious on Vocus' board of directors.

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