Australian Shareholders' Association

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# In the grip of Covid

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| **Company/ASX Code** | Webjet Limited/ WEB |
| **AGM date** | Thursday, 22 October 2020 at 5pm |
| **Time and location** | https://web.lumiagm.com, virtual |
| **Registry** | Computershare |
| **Webcast** | Yes |
| **Poll or show of hands** | Poll on all items |
| **Monitor** | Mike Robey assisted by Jason Cole |
| **Pre AGM Meeting?** | Yes with Chair Roger Sharp and Director Brad Holman |

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention do not have a shareholding in this company.

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

**Summary of ASA Position**

Webjet's financial performance is a tale of two periods; BC (Before Covid) and AD (After the Demise of travel). Before the onset of the pandemic, global travel was at an historic high. After the onset it crashed to what we have all been accustomed to, namely local travel only and then at a much reduced volume. The travel industry remains in business ICU, on life support.

Webjet's business model, as well as being an online travel agent, is to be the B2B provider of choice to other travel agents of beds, or berths in cruise ships. They have risen fast to the global No. 2 provider of these and had a bright future in a normal travel world. The WebBeds business was the engine of growth for the company and they assiduously built up direct exclusive relationships with hotel groups around the globe in order to clip the ticket when constructing hotel packages for agents.

For the first half of the year revenue was up 24% to $217.8m, underlying earnings before interest, depreciation and tax (EBITDA) was up 43% to $86.3m and cruising was not yet the passage to the underworld it has become. By year end, revenue was $266.1m, down 27% and EBITDA $26.4m, down 80% year-on-year.

Survival became the principal focus, but they retained their ambition to be the world's No. 1 wholesaler of beds, so they cut costs by about half, raised capital in order to keep paying their remaining fixed costs and shut some businesses ( cruise ship berths among others). 516 staff were retrenched and the remaining staff took 4 day weeks. Directors and key management took hefty pay cuts to eke out the cash.

**Governance and culture**

Webjet is an ambitious company with a culture which is literally global. It has taken well to the online world and despite its massive setback has used its competence here to stay off life support. The staff remaining are employed in offices around the world including in the middle east, in part to take advantage of the travel opportunity that the annual Haj presents.

**Financial performance including dividends and shareholder returns**

Prior to the crash the earnings and dividends per share were all on a multi-year growth trajectory. A dividend of 9c was announced in the first half but subsequently delayed until April 2021. The share price tumbled from $9.69 at the start of the year to $2.50 at the market crash low point and recovered to $3.34 by the end of the financial year. Shareholder returns were -65% for the year.

**Key events such as restructures, acquisitions, buy backs and capital raisings**

We have covered the fact that Webjet conducted a major cost cutting program, covering all aspects of their business. At the same time they sought out investment bank partners to conduct an urgent capital raising. This took the form of an Institutional component of $231m and a pro-rata but non-renounceable accelerated retail offer raising $115m and incidentally increasing the number of shareholders by 50K. In hindsight the offer price of $1.70 was well below where the price subsequently settled but Webjet explains that there was no history of such a major market event and they were guided by the advice of the only underwriter willing to participate.

The end result was that 72.7% of existing shareholders took up their entitlement offer. A retail top up process was conducted whereby the entitlements of those not taking up the offer were offered to those who had applied for overruns, again in a pro-rata way. This was oversubscribed and some shareholders received up to 100% in extra shares. The entire process is not as fair on a number of grounds as a PAITREO, where non-participating shareholders' entitlements are sold on the market and returned as cash and where Institutional and retail shareholders are treated equally. It was explained to us that Webjet urgently needly cash to pay their operating costs, that time was of the essence and they had to accept the certainty of a bank underwritten capital raising.

In addition to the capital raising, Webjet subsequently raised €100m in a capital notes issue in order to pay off some trade debtors, retire some term debt and deal with the awkward issue of repaying deposits from travellers and travel companies.

We are advised that they have enough cash to operate the business with the current low income until late 2022.

**Key Board or senior management changes**

None, though the Board is concerned that there is a risk of loss of executive talent. More on this under remuneration.

**ASA focus issues**

We raised the issue of unfairness of the capital raising, relative to a PAITREO method, but were convinced by the response that the arrangement at the time was the best they could do.

We also raised the matter of risk management, given that in the prior year they had assured us that if a problem arose in one part of the globe, then travellers simply shift their travel to another part but keep spending. It is interesting that although scientists have been warning of pandemics for a long time, it is much like predicting earthquakes in “hot” zones. The uncertainty of a timeframe seems to absolve business planners from conducting that scenario plan.

**Summary**

| (As at FYE) | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** |
|---|---|---|---|---|---|---|
| NPAT ($m) | -143.5 | 60.3 | 41.5 | 52.4 | 21.3 | 17.5 |
| UPAT ($m) | -119.0 | 62.3 | 43.2 | 33.1 | 21.3 | 17.5 |
| Share price ($) | 3.43 | 13.60 | 13.45 | 12.18 | 6.99 | 2.99 |
| Dividend (cents) | 0.0[1] | 22.0 | 20.0 | 17.5 | 14.5 | 13.5 |
| TSR (%) | -65.1% | 3.6 | 12.3 | 77 | 148 | 28 |
| EPS (cents) | -82.1 | 48.0 | 36.0 | 53.8 | 26.2 | 22.0 |
| CEO total remuneration, actual ($m) | 1.508 | 3.437 | 1.441 | 1.601 | 1.535 | 1.535 |

For [insert year], the CEO’s total actual remuneration was **17 times** the Australian Full time Adult Average Weekly Total Earnings (based on Aug 2020 data from the Australian Bureau of Statistics).

[1] A dividend of 9c was declared , due in April 2020, but deferred until April 2021.

| **Item 1** | **Adoption of Remuneration Report** |
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| **ASA Vote** | **Against** |

**Summary of ASA Position**

Webjet took major salary and entitlement cuts as a consequence of the drastic reduction in their business. These set an example to other companies. They were:

- A cut of 60% to fixed annual remuneration (FAR) for the Managing Director from March 2020 until December 2020;
- The cancellation of the FY20 STI plan;
- Board base fee reduction of 20% from March 2020 until December 2020;
- Cuts of 20% to Fixed remuneration for the Executive key management until September 2020 (previously announced as being until June 2020, but now extended)
- The cancellation of all LTI grants

The consequence of these measures is that they have a significant flight risk of talent in the organisation, since prior to the Covid event, they were viewed in the market as leaders in digital business operations. In order to retain the key staff they propose for shareholder approval new option plans for the coming three years. These are the subject of Resolution 6 below.

| | Target $m | % of Total | Max. Opportunity $m | % of Total |
|---|---|---|---|---|
| Fixed Remuneration | 1.508 | 22.9 | 1.508 | 22.9 |
| STI - Cash | 0.0 | 0.0 | 0.0 | 0.0 |
| STI - Equity | 5.085[1] | 77.1 | 5.085[1] | 77.1 |
| LTI | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 6.593 | 100% | 6.593 | 100% |

[1]equates to 1.5m zero price options at the vesting price of $3.39, due Aug 2021

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| **Item 2** | **Re-election of Don Clarke as a Director** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

Don has a legal background in the Minter Ellison consultancy and has in the past chaired the Remuneration Committee and is now Deputy Chair. He has engaged well with the ASA in the past and has 5 years of service. He sits on other Boards but is not overloaded. We support his re-election

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| **Item 3** | **Re-election of Brad Holman as a Director** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

Brad has a long travel industry background, having been president of a large portion of Travelport, a travel industry services business, providing technology and payment systems to the industry. He was first appointed in 2014 and his well suited to the Webjet Board and we support his re-election.

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| **Item 4** | **Ratification of issue of shares under Institutional Placement** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

The capital raising program we mentioned above requires shareholder approval for the issue of these shares to Institutions. Given the necessity to raise capital for the ongoing running of the business, and with the caveat that we felt in hindsight that it was dilutive to some retail shareholders, we will vote for this.

| Item 5 | Approval for the issue of Equity Settled Notes to replace the existing Cash Settled Notes |
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| ASA Vote | For |

**Summary of ASA Position**

As mentioned in the commentary above Webjet issued €100m in capital notes, for a number of debt related reasons. This resolution arises because the original terms for the notes were that it paid a coupon rate of 2.5% semi-annually and settlement was in cash at the term of 7 years. This resolution requests a change to the settlement, by making it in equity (shares) at the price of $4.092. The original placement was made for cash settlement since under the listing terms of the ASX it is not possible to issue more than 15% shares in any one year without shareholder approval. That left them no room after the capital raising earlier in the year. Webjet believes it will successfully re-negotiate the change to settlement with the notes holders, who stand to make an additional capital gain on top of the coupon (dividend) if the share price rises above $4.09. The downside for these note holders is that if the share price falls below $4.09 they will do worse. Since this will free up cash for operating the business and in the downside scenario will protect shareholders from a potential punitive cash call, we will support the resolution.

| Item 6 | Approval of Webjet Long Term Incentive Plan |
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| ASA Vote | Against |

**Summary of ASA Position**

This resolution is to enable the issue of zero price options to all full time and part time staff at Webjet as part of their remuneration packages. This replaces all STI and LTI awards. There is a cap on the number of options of 18m, which includes 4.5m of those set aside for the CEO. See item 7 below. This resolution does not require approving any particular remuneration quantum for individual staff, which have not been declared, but merely enables the inclusion of options in remuneration packages. The aim is to be able to retain staff in the difficult circumstances which will remain for some time in this industry.

There will be a vesting price for the issue of the options with item 7 giving a guide to what we can expect. Approval is needed owing to the listing rules of the ASX.

Our position is that if packaged well this will enable Webjet to retain staff and along the way make them into shareholders. We do not support the initiative, based on the discussion in the following resolution.

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| **Item 7** | **Approval of Managing Director participation in Long Term Incentive Plan** |
| **ASA Vote** | **Against** |

**Summary of ASA Position**

This follows the same logic as the Item 6 above except in this resolution there are explicit benefits outlined. The proposal is to issue 4.5m options, 1.5m of which vest on August 19 2021 if the 30 day share price averages increased by 10% over that on August 19 2020, an additional 1.5m if on August 19 2022 the share price has increased a subsequent 10% and the final 1.5m on August 19 2023 if the share price has increased by a further 10%. These price targets are $3.39, $3.73 and $4.10 respectively. There are no other hurdles other than share price appreciation. This plan replaces the STI/LTI plan for the next three years.

Our guidelines would not support such a plan under normal circumstances, but these are not normal circumstances. All the key executives have forgone their existing LTI plans and lost considerably in the share price crash accompanying the Covid shutdown. They are all therefore a flight risk if there is no competitive financial incentive to stay. The CEO in particular was one of the major shareholders and founders and as a shareholder suffered a major personal loss of wealth. He retains a large number of shares and has also volunteered a 60% pay cut as part of his contribution to reducing the operating costs of the business. This plan continues his investment in Webjet's success, since it does have built-in share price appreciation and aligns with the interests of other shareholders. There is a big question about the fairness of the quantum on offer for each of the years, but the targets are unequivocal and the plan is simple and easily understood. A further question was put to the Chairman that the targets were set too low, given the price rebound since August 2020, however he stated that he could not have anticipated this and the share price is not universally expected to remain as high as it is trading today. Webjet is currently the most shorted stock on the ASX by a long margin, with 18% of trading being short sales, so many in the trading community see considerable downside in the current stock price.

Our concern is that while we have no difficulty with the structure of the award, the quantum remains too high. We would prefer to see half of the award amount in total, at 2.25m options. Given these reservations we are unable to support the plan

***ASA Disclaimer***

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