Optimism in the face of challenges

Company/ASX Code	TPG Telecom/TPG
AGM date	Thursday 4 May 2023
Time and location	10am, Rydges World Square Hotel, Sydney
Registry	Computershare
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Pamela Murray-Jones, assisted by Fiona Balzer, Chad Moffiet and John Lin
Pre AGM Meeting?	With Senior Independent Director, Dr Helen Nugent; Vanessa Hicks, Group Exec People Experience, and James Hall, GM Strategy & Capital Markets

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

Summary of ASA Issues for the AGM

- Financial performance

  TPG, like all telcos, is currently facing a number of challenges impacting on its profitability. While the company has made significant growth in its customer base for its wireless network since the VHA merger, and increased its margin yields, the ACCC's decision to disallow the TPG and Telstra network sharing proposal that was announced in February 2022 was a disappointment for the company. TPG has challenged the decision and a final verdict will be handed down mid-year.

  What impact the final decision may have on TPG's financial forecast (positive or negative) is a question for the AGM.

- Directors and board

  At the AGM, it would be appropriate for the new director-elect, Serpil Timuray, to be asked to address how her skills supplement those already on the Board.

- ESG

  TPG has a strong focus on ESG articulated in the Annual Report. They have aimed to be transparent in their communications with shareholders and we congratulate them on setting measurable targets on energy and greenhouse gas emissions. However, given the challenging emission targets set for 2030, the company is yet to articulate how these targets will be met within a relatively short time frame, and what investment will be required to do this.

Consideration of the 2022 Accounts and Reports

TPG Telecom Limited (TPG) is an Australian-based multi-media full-service telecommunications company providing consumer, wholesale and corporate telecommunications services. The business offers voice, internet and data solutions to a range of customers from consumers to SMEs, corporate and government sectors.

In 2020 it merged with Vodafone Hutchinson Australia (VHA) and has been going through a process of integrating and simplifying operations as well as coping with the effects across the economy of COVID lock downs. However, 2022 saw a return to growth for the Company after a period of stagnation.

Financial performance

TPG made a small increase in revenue of 1.1% in 2022. Omitting the sale of its tower assets, profit (UPAT) decreased from $225m in 2021 to $222m in 2022. The reason for this was higher financing costs and costs associated with the merger including carrying of goodwill from the merger and redundancy and administrative costs.

However, many ASA members will be concerned by the negative shareholder return over the past 3 years and this was one of the issues raised at the pre-AGM meeting. Discussing this, it was pointed out that a free float of only 25% is part of the issue, and therefore the Board prefers to focus on TPG's total service revenue and EBITDA over which it has more influence. The recent increases in pricing plans should take full effect in FY2023. James Hall, TPG's GM Strategy & Capital Markets also noted that the underlying ROIC is 6.9% (acceptable for the current environment) and investment in modernising technology and decommissioning the legacy systems is still to fully bear fruit in reducing costs and improving profitability.

It should also be noted that with the sale of tower assets, TPG has been able to pay down debt by a net $522 million and reduce borrowings by $600 million in an environment of rising interest rates. Because the decision has also affected operating cash flow, it has meant a zero short-term incentive (STI) for management and has adversely affected meeting the hurdle for the long-term incentive (LTI). The balance sheet is healthy.

The annual dividend rose from 16.5 cents in FY21 to 18 cents in FY22.

Governance and culture

To face the challenges of a maturing industry in a reasonably small market requires strong and competent management and a board that has the competence and independence to oversee this.

While TPG Board is composed of non-executive directors (NEDs), only two directors are considered independent directors. This would usually be a cause for concern and does not align to ASA guidelines. However, given that the remaining non-executive directors on the Board represent large shareholders and the free float is just 25%, this is of less concern in this instance. In addition, both independent directors are highly experienced women, and a third woman, Serpil Timuray, has been put forward for election at the AGM (albeit not as an independent). While the gender balance is still well below what ASA considers optimal, the situation is improving.

At the pre-AGM meeting, monitors questioned TPG's approach to board evaluation. ASA suggests that companies should disclose the process for evaluating the performance of the Board, its committees and individual directors, including the chair, and disclose whether a performance evaluation has been undertaken in accordance with that process in each reporting period. TPG does not currently report whether board performance evaluations have been undertaken.

We were informed the responsibility for board evaluation has been placed in the hands of the Senior Independent Director, Helen Nugent. While she stressed the independence of the process used, which goes through her office, we suggested that she and the Board might consider a fully independent evaluation by someone not associated with the company and disclose a summary of the outcome. In our opinion, this would provide more rigour and more confidence in the process.

We also asked for a more detailed explanation of director skills (rather than a list of their previous and current roles) in the Notice of Meeting and in the Skills Matrix. An outline of skills is seen as being important to inform the decision on voting for directors. (We note that some explanation of skills is outlined for Robert Millner and Arlene Tansey in the NOM, but detail is insufficient for Serpil Timuray.)

TPG has linked NED remuneration fees to their governance role and are not paid in shares. Fees are benchmarked and it was noted at the pre-AGM meeting that board fees sit below the benchmark and are not increasing.

Key board and management changes

- Grant Dempsey took up the position of Group Financial Officer commencing 1 February 2022.
- Diego Massidda resigned as a director effective 28 March 2023, with the casual vacancy filled by Serpil Timuray

Summary of Voting Intentions

No.	Resolution description	
1	Financial Statements and Reports	For
2	Adoption of Remuneration Report	For
3	Re-election of Robert Millner as a Director	For
4	Re-election of Arlene Tansy as a Director	For
5	Election of Serpil Timuray as a Director	For
6	Grant of Equity to the CEO and Managing Director	For

Explanation of ASA Position

Resolution 1: Financial Statements and Reports

2020 figures below reflect a full year for VHA and 6 months and 4 days of TPG Corporations as the merger occurred on 26 June 2020. NPBT was a loss of $86m, pro forma NPAT as if there was a full year of operations was $123m. In addition to the TSR noted above, a special merger dividend of 49 cents per share was paid to TPG Corporation's shareholders as well as an in-specie distribution of one Tuas (TUA) share, the Singapore mobile operations, for every two TPG shares held. Tuas share price was 67.5 cents on listing and $1.30 mid-March 2023. Comparative figures to 2019 are not meaningful.

(As at FYE)	**2022**	**2021**	**2020***
NPAT ($m)	513	113[1]	734
UPAT[2] ($m)	222	225	NA
Share price ($)	4.39	5.89	7.22
Dividend (cents)	18	16.5	7.5
Simple TSR (%)	(14)	(16)	(18)
EPS (cents)	27.6	6.1	64
CEO total remuneration, actual ($m)	3.5[3]	3.3	5.5

[1]*Restated from $110m reported in 2021 annual report, reflecting the change in accounting policy for government grants which was implemented for the 2022 financial results – see p72 2022 annual report for details.*
[2]*We are using NPAT excluding the gain on the tower assets sale, and customer base amortisation as underlying profit after tax (UPAT). Statutory profit (NPAT) is referenced in the remuneration reports. Note there is also Adjusted NPAT (adding back restructuring costs and certain non-cash items) was $646m (FY21 $587m) is used in the Board's dividend policy of paying a dividend of least 50% of Adjusted NPAT.*
[3]*Includes the vesting of CEO's deferred STI allocation for 2020. 2020 LTI vesting and conversion to shares on the 9 June 2022 was 27,355 shares. The share price was $5.95 resulting in $163k added to the cash amounts as shown in the Annual Report.*

Resolutions 2 and 6: Adoption of Remuneration Report and Approval of Equity Grants to Managing Director/CEO

The remuneration plan is clear with transparent reporting of how the actual payment is arrived at. The actual payments include amounts arising from VHA 2019 LTI awards and are clearly disclosed.

The Remuneration (REM) Report outlines short-term incentive (STI) and long-term incentive (LTI) approaches broadly in line with ASA guidelines with the exception of a three-year vesting period for the LTI (ASA would prefer this is extended to four years) and 45% STI being deferred (ASA prefers and TPG is moving to 50%).

While there was a fixed increase of 2% in the base salary recommended for two key management personnel (KMP) in 2022, there was no fixed REM for the CEO and no shares will vest under the LTI for 2021 and 2022. The LTI grant for 2020 was 27,355 shares.

Going forward, remuneration has been benchmarked against the ASX 21-60 peer group and base remunerations have been made to four of the five executives. The base salary for the CEO will increase to $2 million in 2023 which is the first increase since 2020. 50% of the STI will be deferred.

In terms of the LTI, new performance measures have been put in place in response to shareholder feedback. Return on Capital will be given a weighting of 45%, Earnings per Share a weighting of 45% and Environmental, Social and Governance (ESG) measure a weighting of 10%. Deferral of the STI has been increased to 50%.

The amounts in the table below are the amounts that are envisaged in the design of the 2023 remuneration plan.

CEO rem. Framework for FY23	Target* $m	% of Total	Max Opportunity $m	% of Total
Fixed Remuneration	2.0	33%	2.0	24%
STI - Cash	1.2	19%	1.8	22%
STI - Equity	1.0	16%	1.5	18%
LTI	2.0	32%	3.0	36%
Total	6.2	100.0%	8.3	100.0%

**Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.*

<u>Resolution 3, 4 and 5: Election and Re-Election of Directors</u>

Robert Millner and Arlene Tansey come up for re-election at the AGM after serving on the Board since 2020. While Mr Millner is not considered an independent director, he represents a major shareholder and brings a depth of experience and skills to the Board. Ms Tansey is an independent director and serves on two Board Committees.

Serpil Timuray joined the Board in March 2023. She has a long association as an executive with Vodafone and adds to the Board's gender diversity.

ASA proposes to vote for all three directors but as noted would like to hear Ms Timuray address shareholders at the AGM.
