New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

October 7th 2024

## EBOS Group Limited (EBO)

The company will hold its Annual Shareholders Meeting at **2.00pm Wednesday 23 October 2024.**

The location is **Park Hyatt Auckland, 99 Halsey Street, Auckland.**

You can also join the meeting at this link.

***Company Overview***

The company is the largest Australasian marketer, wholesaler and distributor of healthcare, medical and pharmaceutical products. It is also a leading Australasian animal care products marketer and distributor. It employs over 5,200 people in 115 locations in Australia, New Zealand, and Southeast Asia. Healthcare comprises 88% of its business, with animal care the other 12%.

It is listed on the NZX and ASX.

In June 2024, the company announced current CEO Medical Technology, Matt Muscio, will step down from his role in December 2024 and will join the Board as a Non-Executive Director in January 2025. Peter Williams who has served on the Board since 2013 will retire from the Board at the 2024 ASM.

***Current Strategy***

The company's strategy is to pursue a robust investment plan designed to strengthen its core business and target new opportunities that extend the Group's capabilities and enables it to deliver more for its stakeholders.

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***Key***

The following sections calculate an objective rating against criteria contained within NZSA policies.

| Colour | Meaning |
|---|---|
| G | Strong adherence to NZSA policies |
| A | Part adherence or a lack of disclosure as to adherence with NZSA policies |
| R | A clear gap in expectations compared with NZSA policies |
| n/a | Not applicable for the company |

***Governance***

NZSA assessment against its key policy criteria is summarised below:

| Policy Theme | Assessment | Notes |
|---|---|---|
| Directors Fees | G | Excellent disclosure. |
| Director share ownership | G | Directors are not required to own shares. |
| CEO Remuneration | A | See below. |
| Golden parachutes/handshakes | G | See below. |
| Director Independence | G | All Directors are independent. |
| Board Composition | G | See below. |
| Director Tenure | A | See below. |
| ASM Format | G | Hybrid. See below. |
| Independent Advice for the Board and Risk Management | G | See below. |

*CEO Remuneration:* The CEO is paid a base salary and a short-term incentive (STI) both in cash and a long-term incentive (LTI) by way of performance share rights.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets, and the level of achievement versus target for each component associated with any awards. This methodology is supported by the new NZX Remuneration Reporting Template.

We note that the company reports on base remuneration paid during FY24, STI earned in FY23 (but paid in FY24) and LTI awarded in FY24, that was initially awarded in FY20. NZSA expects a disclosure that removes the 'timing conflation' between different periods, with clarity on the incentives *awarded* as well as those *paid*. This is supported by the NZX Remuneration Reporting template.

We do note that the company discloses the expected STI outcome for its FY24 year (payable in FY25).

The methodology for both STI and LTI is well disclosed, both based on single-metric financial performance outcomes. We note that the Board retains a high degree of discretion in awarding incentives, which has the potential to offer less certainty for shareholders.

STI is awarded at 106% - 156% of base remuneration, with LTI at 116% - 178% of base remuneration. It is unclear whether the LTI target band is based on the award (which should remain relatively constant) or is a target for vested/realised LTI. Regardless, NZSA appreciates the weighting towards the long-term, but believes the quantum is significantly above that expected by NZ shareholders. We appreciate that EBOS is functionally based in Australia, so is required to compete for executive resource within that market.

LTI is awarded at NZSA expects that the LTI methodology includes a measure related to a long-term 'shareholder return' measure. The EBOS methodology is based on earnings per share compound growth rate over three years; while this offers a link to corporate performance, this does not necessarily reflect the experience of shareholders.

We recognise EBOS operates in an Australasian market for executive talent. Nonetheless, an incentive opportunity of over 3x base remuneration does not meet NZSA policy.

*Golden parachutes/handshakes:* NZSA is pleased to see the clear disclosure offered by EBOS in relation to the severance terms associated with the CEO, highlighting a 12 month notice period by the company with 12 months' notice also required from the CEO.

The termination payment provision is also disclosed as 12 months, together with an 18-month restraint-of-trade, providing a disclosed 'cap' on the total possible payment in the event of a 'no notice' termination.

For completeness we also appreciate disclosure around whether any sign-on, retention, loss of benefits from a previous employer or takeover bonus payments are offered.

*Board Composition:* EBOS provides thorough disclosure of the skill sets associated with individual Directors and their relationship to the overall 'collective' skills required to govern the company, within a separate document available on the company's website.

The company does not participate in the IoD's Future Director programme designed to develop and mentor the next generation of Directors. NZSA expects NZX50 companies to participate as part of a responsibility to develop and mentor the next generation of Directors.

Notwithstanding our comments below, the nature of the company's board indicates a commitment to thought, experiential and social diversity, with relevant experience for EBOS.

We note the Chair, Liz Coutts is also Chair of Oceania Healthcare Limited and Voyage Digital (NZ) Limited, (now known as 2degrees Group Limited) and Marsh New Zealand Advisory Board. NZSA prefers Directors to have no more than five roles with the Chair counting as two due to the additional time commitment.

Ms Coutts has been very conscious of her workload in recent times and has discussed this with NZSA. NZSA is comfortable with her commitments but does not expect her to take on further board roles.

*Director Tenure:* NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

We note the Chair has served since 2003 – although an effective 'reverse takeover' of Symbion occurred in 2013. We believe the combination of Chair and CEO tenure is a key factor in determining independence. We would expect to see an indication of the Chairs future tenure as part of good succession planning.

The other Directors were appointed between 2019 and 2023.

*ASM Format:* NZSA prefers 'hybrid' ASM's (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation.

*Independent Advice for the Board & Risk Management:* NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

The General Counsel provides company secretarial services and is accountable to the Board through the Chair. KPMG acts as the internal auditor and reports to the Audit and Risk Committee. Directors can seek external independent advice subject to obtaining the approval of the Audit & Risk Committee prior to incurring any advisory fees.

EBOS offers good disclosure as to its risk management and governance processes, as well as thorough disclosure of its strategic, business, and financial risks and their mitigations within its Annual Report and Corporate Governance Statement. As we expect, there is good disclosure as to financial risks.

***Audit***

NZSA assessment against its key policy criteria is summarised below:

| **Policy Theme** | **Assessment** | **Notes** |
|---|---|---|
| Audit independence | G | Good disclosure. |
| Audit rotation | A | See below. |

*Audit Rotation:* The company ensures the Lead Audit Partner is rotated at 5 years as required by the NZX Listing Rules. It does not disclose the appointment dates of the Lead Audit Partner and Audit Firm.

***Environmental Sustainability***

EBOS report in their 2024 Annual Report that they will release their inaugural climate-related disclosures report before the end of October. The summary of **2023's** assessment is shown below, although we expect some improvement on this status when the anticipated climate disclosures are published.

| **Policy Theme** | **Assessment** |
|---|---|
| Approach | A |
| Sustainability Governance | G |
| Strategy and Impacts | R |
| Risk and Opportunity | R |
| Metrics and Targets | G |
| Assurance | R |

***Ethical and Social***

NZSA assessment against its key policy criteria is summarised below:

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| Policy Theme | Assessment | Notes |
|---|---|---|
| Whistleblowing | G | Good disclosure. |
| Political donations | A | Not disclosed if donations were made. |

***Political Donations:*** NZSA policy is that companies should not make donations to political parties. We expect disclosure to this effect, even if there is no donation to disclose.

***Financial & Performance***

| Policy Theme | Assessment | Notes |
|---|---|---|
| Capital Management | G | Appropriate capital management |
| Takeover or Scheme | n/a | |

EBOS' share price rose from $35.39 to $36.23 (as of 19th September 2024) over the last 12 months – a 2% increase. This compares with the NZX 50 which rose by 11% in the same period. The capitalisation of EBO is $7b placing it 9th out of 124 companies on the NZX by size and makes it a large company.

| Metric | 2021 | 2022 | 2023 | 2024 | Change |
|---|---|---|---|---|---|
| Revenue | $9,210m | $10,734m | $12,237m | $13,189m | 8% |
| Cost of Goods Sold | $8,847m | $10,328m | $11,339m | $12,583m | 8% |
| NPAT[2] | $185.3m | $203m | $263m | $273m | 4% |
| EPS[1] | $1.13 | $1.07 | $1.32 | $1.41 | 6% |
| Inventory Turnover | 11.62 | 10.84 | 9.91 | 10.29 | 4% |
| PE Ratio | 32 | 36 | 27 | 26 | |
| Capitalisation | $5.8b | $7.6b | $7.0b | $7.0b | n/c |
| Current Ratio | 1.13 | 1.22 | 1.13 | 0.95 | -16% |
| Debt Equity | 1.81 | 1.91 | 1.79 | 1.79 | n/c |
| Operating CF | $298m | $249m | $391m | $348m | -11% |
| NTA Per Share[1] | $0.62 | -$2.17 | -$2.06 | -$2.16 | n/a |
| Dividend[1] | $0.885 | $0.96 | $1.10 | $1.185 | 8% |

[1] *per share figures based off actual shares at balance date (not weighted average)*

[2] *Attributable to owners of the parent.*

*Revenues* continued to rise for EBO in FY 24 up by 8% to $13.2b (although these may be impacted negatively next year) and subsequently *EBITDA* was up 8% to $606m. In line with an increased EBITDA, *NPAT* was up 4% to $273m which enabled the company to pay increased dividends of $1.185 for the year. *Dividends* are fully franked in Australia but partially imputed in NZ. This puts NZ shareholders at a disadvantage to their Australian counterparts.

*EPS* were $1.41 and places EBO on a *P/E* of 26.

*Operating cashflows* were down 11% to $348m. This fall was a function of changes in working capital, most notably trade and payables which reduced by $101m.

Inventories were stable at $1.2b and the *inventory turnover* ratio increased by 4% to 10.29.

The balance sheet remains strong and EBO has a ***debt equity*** ratio at a manageable 1.79 (normally 1.79 is a high debt equity ratio, however this figure is inflated due to EBO's large trade and payables which are negated by large trade and receivables). We note that the company took on some extra debt and total debt stands at $1,236m. Of this $766m is current. Debt is made up of bank debt.

Of interest, EBO have a negative ***NTA*** (-$2.16) after adding a substantial number of intangibles to their balance sheet in prior years. Total intangibles are $2.6b and this figure is larger than their equity of $2.4b. Intangibles are comprised of goodwill and indefinite life intangibles.

In a comprehensive investor presentation, EBOS provided guidance where "the Group expects to generate Underlying EBITDA of between $575m to $600m". In addition, *"FY25 performance will be impacted by the non-renewal of the CWA contract, which generated approximately $2.2 billion of revenue in FY24 and ceased on 30 June 2024".*

Sybos Holdings Pte Limited is the largest shareholder with a 18.99% holding.

***Resolutions***

**1. To elect Matthew Muscio as a Non-Independent Director.**

Matthew Muscio was appointed Managing Director & Chief Executive Officer of LifeHealthcare in August 2015, which was then listed on the ASX. He remained as Chief Executive Officer and continued to lead the business following its acquisition by private equity in 2018 and subsequent acquisition by EBOS in May 2022. Prior to this, he worked for 13 years at Johnson & Johnson in its orthopaedics business. He is a former Director of the Medical Technology Association of Australia and a number of EBOS subsidiaries. Mr Muscio holds a Bachelor of Business (International Business) from the Queensland University of Technology and a post graduate degree in management from the Melbourne Business School.

We will vote undirected proxies **IN FAVOUR** of this resolution.

**2. To re-elect Dr Tracey Batten as an Independent Director.**

Dr Tracey Batten was appointed to the Board 1 July 2021. She is currently chair of the Accident Compensation Corporation and is a non-executive director of Medibank Private Limited and Nanosonics Limited. She was previously a nonexecutive director of National Institute of Water and Atmospheric Research, Abano Healthcare Group Limited and various other healthcare related research institutes, charities and industry and government bodies. During her executive career Dr Batten was Group CEO of Imperial College Healthcare NHS Trust in the United Kingdom, Group CEO of St Vincent's Health Australia, CEO of Eastern Health, and CEO of Dental Health Services Victoria.

We will vote undirected proxies **IN FAVOUR** of this resolution.

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**3. To re-elect Elizabeth Coutts as an Independent Director.**

Elizabeth Coutts was appointed to the Board 3 July 2003. She is also Chair of Oceania Healthcare Limited and 2degrees Group Limited, Director of EBOS Group subsidiaries in New Zealand and Member, Marsh New Zealand Advisory Board. She is also a former Chair of Skellerup Holdings Limited, Ports of Auckland Limited, Meritec Group, Industrial Research, Life Pharmacy Limited, former director of Air New Zealand Limited, the Health Funding Authority, Sanford Limited, the Yellow Group of Companies and Tennis Auckland Region Incorporated, former Deputy Chairman of Public Trust, former board member of Sport NZ, former member of the Pharmaceutical Management Agency (Pharmac), former Commissioner for both the Commerce and Earthquake Commissions, former external monetary policy adviser to the Governor of the Reserve Bank of New Zealand, a former president of the Institute of Directors Inc and former Chief Executive of the Caxton Group of Companies.

At the time of her re-election in 2021 we said *"We note that Ms Coutts will have served 21 years at the end of this term. It is internationally recognised that a Director ceases to be Independent after they have served 12 years.*

*We note the company's succession planning disclosure that there are "directors with long tenures at the Company who have indicated an intention to retire over the next few years." While Ms Coutts no doubt brings a unique set of skills to the Board, the risk to shareholders of an effective transfer of knowledge increases as time passes.*

*Whilst we will support her re-election, we would be unable to support a further term and expect the Board to disclose succession intentions and appoint a replacement sometime during this term, as per the company's statement above."*

Consequently, and in the absence of any further information, we will vote undirected proxies **AGAINST** this resolution. Should clarity emerge on short-term succession at the Shareholder's Meeting, we will vote **IN FAVOUR**.

**4. To increase the Director Fee Pool by $166,750 (10.15% to $1,810,000)**

The current Fee Pool was approved by shareholders at the 2023 ASM. The Notice of Meeting set outs the reasons the Board is seeking a further increase and the amounts proposed to be paid. It has commissioned PayIQ to prepare an independent report, with the link also describing the peer group used.

The key reasons for the fee pool proposal include the need to maintain competitive fees for EBOS' increasingly international business and the company's ongoing growth.

We note the Report states, *"As requested by and agreed with EBOS, the primary peer group adopted for benchmarking director fees ("Benchmarking Peer Group") comprises ASX-listed companies with market capitalisation (based on 6-month average market capitalization to 04 Jun 2024) between 50% and 200% of EBOS."*

The Report concludes *"The Board Chair and the Board Member fees are positioned at or below the median. All the Board Committee Chair and Board Committee Member fees are positioned at or below the median. The Aggregate Fee Pool is positioned at the 25th percentile."*

We note that EBOS utilised the same methodology in proposing a 5% increase in Director's Fees at the 2023 shareholders meeting. In supporting the resolution, NZSA noted at the time that *"the proposed fee pool is at the top end of our range."* We also expressed concern at the ASX benchmarks at 50%-200% of market capitalisation, expressing a preference for a ASX/NZX blend at a tightened range of 75%-125% of EBOS' market capitalisation.

In part mitigation, we note that the recommendation is to set fees at the 25$^{th}$ percentile of the benchmark.

NZSA's own assessment makes an allowance for non-NZ directors, a factor we have applied to EBOS. Our approach is a practical measure that reflects the unfortunate 'Australisan-isation' of some remuneration practices and quantum levels. We appreciate the rationale made by EBOS, that given the nature of its business it needs to be competitive in an Australian director market. NZSA has no wish to harm the succession plans of the current Board.

Nonetheless, the proposal sits above NZSA's expected range for an NZX-listed company, even with a high level of Australian-based directors on the Board. We also have no wish to support what we believe is a bias towards excessive remuneration within Australia.

On this basis, we will vote undirected proxies **AGAINST** this resolution.

5. **That the Board is authorised to fix the auditor's remuneration for the coming year.**

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

***Proxies***

**You can vote online or appoint a proxy at** https://www.investorvote.com.au/

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **2.00pm Monday 21 October 2024.**

**Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.**

**The Team at NZSA**