

SeaLink dealing with rough seas

Company/ASX Code	SeaLink Travel Group (SLK)
AGM date	Tuesday 27 October 2020
Time and location	4pm ACT Virtual AGM
Registry	Boardroom
Webcast	Yes
Poll or show of hands	Poll
Monitor	Ken Wakeman assisted by Cynthia Loh
Pre AGM Meeting?	Yes with Chairman Jeff Ellison, Company Secretary Joanne McDonald & CEO Clint Feuerherdt

Please note any potential conflict as follows: The individuals 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

Financial performance

It was a difficult year for the company with it badly affected by bushfires towards the end of 2019 and the COVID 19 pandemic in 2020. In the middle of these difficulties SeaLink was also bedding down their largest acquisition to date, Transit Systems Group which doubled the size of the business.

After a good start to the year, the marine & tourism division of the business struggled for the last six months, with many of their businesses shutting down completely. The Government JobKeeper Program aid (\$8.6 million) helped fund wage costs and ensure key staff were retained. Other international Government aid (\$6.3 million) was also received.

The acquisition of Transit Systems Group was a saviour for the company. It performed in line with the acquisition base case, despite the pandemic. The Australian and international bus divisions performed above expectations extending existing contracts and winning new ones.

The net result was that FY2020 revenue increased by over 150% but the statutory Net Profit After Tax (NPAT) showed a loss of \$13.5m, after one-off pretax costs of \$29.9 relating to the acquisition of Transits Systems Group and impairment of certain assets and goodwill. The underlying profit after tax was \$16.4m with the difference between the profits figures also attributed to an accounting change (AASB 16).

Underlying basic EPS is 9.9cents but basic EPS is -8.2 cents.

Dividends were down by 27% with the payout ratio specified in the chairman's report being between 50% -70%. The exact figure is not specified and this year is missing from the five year financial highlights in the annual report.

Interest bearing debt decreased with gearing now at 31% (FY2019 36%).

Total shareholder return (TSR) was up by 21.4% largely due to an 18.5% increase in share price.

SeaLink's investment of UWAI was completely written down (total loss over 2 years of 3.2m).

Other income of 20.97 million is listed but not explained in the notes.

Jobkeeper payments have been flushed out of the accounts which presented a 'net' figure.

Key events

- Acquisition of Transit Systems Group - settled on 16 January 2020
- Capital raising of \$154 million to facilitate the acquisition of the Transit Systems Group acquisition
- Impact of bushfire and COVID-19 pandemic especially on the marine and tourism business operations
- Award of 10+5 year contract as the operator of Brisbane City Councils' ferry network
- Extension of Canning and Southern River bus contracts in Western Australia to September 2024 and award of the Joondalup bus contract
- Retention of the Marmion and Claremont bus contracts in Western Australia
- Extension of marine contracts in Gladstone, South East Queensland and Northern Territory
- Retention of three existing bus contracts and award of an additional bus contract plus a further light rail component for an 8+2 year term in South Australia

Key Board or senior management changes

- Client Feuerherdt appointed Group CEO 16 January 2020 after completion of the acquisition of Transit Systems Group
- Other KMP appointments on 16 January 2020 include:
 - G Legh - Chief development Officer
 - C Beaumont - Chief Operating Officer, International
 - W Toh - Managing Director, Singapore
- Jeff Ellison retired as Managing Director & CEO on 16th January 2020, appointed to the board (17 February 2020), Deputy Chair (26 February 2020) and Chair (1 July 2020)
- Neil Smith appointed to the board on 16th January 2020
- Andrew McEvoy retired from the board 30th June 2020
- Lance Hockridge appointed to the board 1st July 2020

ASA focus issues

Board Composition

- From the 1st July 2020, the board of seven comprises 5 male and 2 female directors (29%). It has a non-independent chairman and three other non-independent directors, making the board majority non-independent, which is contrary to ASA requirements.
- During the year, the board reclassified 2 non-independent directors (Messrs Dodd & Smerdon) as independent on the basis that they are no longer substantial shareholders in the company after the acquisition of Transit Systems Group. Nevertheless, Mr. Dodd sold his former business to Sealink and, in our opinion, should be considered to have bias in assessing the performance of his former businesses and Mr. Smerdon has been a director for 18 years.
- At the pre-AGM meeting, we informed the Chair that we disagreed with the company's reclassification of these 2 directors and would therefore be looking for more independence on the board in future appointments.
- It is concerning that the board is still unaware of why there was such a large vote against directors Dodd (31.44%) & Smerdon (33.52%) at last year's AGM.

Remuneration disclosure

- See Item 2, vote on Remuneration report

Risk Management:

- SeaLink's risk management policy worked well during the bushfires and pandemic.
- SeaLink's approach to corporate responsibility in sustainability is commendable. Supported by practical experience gained in operating a fleet of hydrogen-fuelled buses in London, it is pursuing opportunities to deploy fuel-cell buses in Australia and Singapore. It is also trialling electric buses in NSW.

Shareholder participation

- A capital raising took place during the year to fund the acquisition of Transit Systems Group. The offer was for a 1 for 4 pro rata accelerated non-renounceable entitlement offer of new SeaLink ordinary shares. The offer was made to both institutions and retail shareholders at the same price and the same ratio.
- SeaLink provides information to shareholders via announcements to the ASX when there are significant events.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	(13.5)	21.5	19.5	23.8	22.3
UPAT (\$m)	16.4	23.4	22.1	23.8	23.1
Share price (\$)	4.42	3.73	4.43	4.07	4.08
Dividend (cents)	11	15	14.5	14	12
TSR (%)	21.4	-10.6	12.6	3.2	87.6
Underlying EPS (cents)	9.9	21.2	19.3	23.5	23.4
CEO total remuneration, actual (\$m)	1.85	.64	.65	.65	.79

For 2020, the CEO's total actual remuneration was **20.11 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	Remuneration Report
ASA Vote	Against

Summary of ASA Position

In the past few years we have regarded the SeaLink remuneration report to be clear and concise. Unfortunately this year we found it not so.

Total directors' fees have increased by over 11% despite being reduced by 20% for the period 1 April 2020 to 30 June 2020.

The STI for the new CEO was achieved by him achieving 82.5% of his KPIs reduced by a voluntary 20% reduction for the period 1 April 2020 to 30 June 2020. The target STI is not revealed in the annual report but we have calculated it to be around \$320,000.

Several executives including the CEO were paid a 'discretionary payment in recognition of response to COVID 19 pandemic'. We find this unacceptable.

Chairman Jeff Ellison was paid an STI of \$650,000 on the basis of 'Contractual Commitment – retention related'. No further details were supplied.

Item 3	Election of Director – Neil Smith
ASA Vote	For

Summary of ASA Position

Mr Smith was appointment to the board on the 16th January as a result of the Transit Systems Group acquisition. He was a founding member and former chairman of the Transit Systems Group.

He commenced his career within the Sydney bus industry before acquiring a number of bus operations in rural NSW and the Queensland. In 1995 together with 2 others he founded Transit Systems Group.

Mr Smith clearly has extensive experience in running public transport and will be a valuable member of the board. We therefore support his election to the board.

As a result of the acquisition he holds over 33 million shares and together with other entities that form the 'Associated Scrip Vendors' is a substantial shareholder. He is therefore considered as a non-independent director.

Item 4	Election of director – Lance Hockridge
ASA Vote	For

Summary of ASA Position

Mr Hockridge was appointed to the board on 1st July 2020. He has international experience in the transportation, manufacturing and logistics sectors with a focus on safety, operational and financial transformation of businesses.

He has held several managerial positions in a number of companies in the global transport business.

He is an independent director and we support his election.

Item 5	Re-election of director – Jeff Ellison
ASA Vote	For

Summary of ASA Position

Mr Ellison was the former CEO of SeaLink, a position he held from 1997 and under his stewardship SeaLink grew substantially by both organic growth and acquisition. He successfully completed a number a big and small acquisitions to grow the Marine & Tourism business.

He retired as CEO on upon the acquisition of Transit Systems Group (16th January 2020) and following a transition as an executive director, was appointed a non-executive director (17th February 2020). He was subsequently appointed deputy chair on 26th February and then appointed to the chair upon the resignation of Andrew McEvoy after 5 years as chairman.

As Mr Ellison was CEO before becoming chairman he is considered a non-independent chairman. ASA prefer the chairman to be independent. It is particularly relevant as we consider the board to be majority non-independent.

However, we accept that the plan was to replace former chairman Andrew McEvoy with a new independent chairman and the company was looking to recruit when the COVID 19 pandemic struck. This caused potential appointees to be wary of taking on this role during a pandemic together with ‘bedding down’ a large acquisition. In addition travel restrictions caused recruitment to be difficult.

Mr Ellison is clearly a most valuable member of the board and we will therefore support his election but we will be looking to see the appointment of an independent chairman in the near future.

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