New Zealand Shareholders Association Inc.

NZSA

Many Investors, One Voice

28 September 2023

Ebos Group Limited (EBO)

The company will hold its Annual Shareholders Meeting at **2.00pm Tuesday 24 October 2023.**

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

You can also join the meeting online here.

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 5000 people in 108 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 May 2023 Julie Tay was appointed to the Board as an independent Director. Sarah Ottrey and Stuart McGregor will retire from the Board at the 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.
Executive Remuneration	G	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.

Executive 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 cash and 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 associated with each component of the award.

The methodology for both STI and LTI is well disclosed. NZSA supports board discretion for both 'upside' and 'downside' outcomes in appropriate circumstances. The company also discloses the expected outcome for its FY23 year (payable in FY24), with the CEO awarded the maximum STI opportunity.

We note the CEO received a special STI of A$2.040 million related to the acquisition of LifeHealthcare. Excluding the special STI, the STI comprised 62% of total incentives. We prefer a greater weighting towards LTI to better align with the long-term interests of shareholders. We also prefer some recognition of absolute shareholder return within the LTI assessment award framework.

Last, we recognise that Ebos operates in an Australasian market for executive talent. Nonetheless, an incentive opportunity of 4x 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.

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 and Chair of a significant non-listed entity (Voyage Digital, better known as 2 Degrees). NZSA prefers Directors to have no more than five roles with the Chair counting as two due to the additional time commitment.

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 EBOS 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.

Otherwise, one Director was appointed in 2013, with the remaining four Directors appointed between 2019-2023. Two directors have resigned during this year (Sarah Ottrey and Stuart McGregor), with the appointment of Singapore-based Julie Tay reflective of the company's Asian expansion.

Discussions with the company have indicated that this is a key focus area for the Board.

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. NZSA also expects disclosure of the original appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

We note that EBOS undertook a comprehensive audit tender process this year, and have announced that Deloitte be retained as auditors.

Environmental Sustainability

NZSA assessment against its key policy criteria is summarised below:

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

Overall approach: In their Annual Report for 2023, EBOS provides some brief commentary on ESG matters. They have also prepared a more comprehensive Sustainability Report since 2021 which contains a Global Reporting Initiative (GRI) Standards Index. They describe the material topics identified in their Sustainability Report are those that have significant impact on sustainability or key stakeholders.

Sustainability Governance: EBOS discloses their Board of Directors Skills Matrix separately, which shows the number of the 15 skills specified each director possesses. While this is a higher number of skills than most companies, it is intriguing to note that none of them explicitly relate to sustainability. We note that EBOS has established an ESG Steering Committee.

Strategy and Impact: EBOS acknowledge that from FY24 they are required to make climate-related disclosures and have engaged an (unnamed) international professional services firm to assist them in this. Currently, they do not explicitly describe any environmental-related impacts on their strategy nor do they disclose any adaptation roadmaps.

Risk and Opportunity: Despite mentioning it a few times, EBOS does not disclose their environmental- or climate-related risks, opportunities or mitigation strategies in their Sustainability Report.

Metrics and Targets: EBOS disclose their GHG emissions profile up to Scope 2, with comparative data from FY22 and a plan to begin reporting Scope 3 emissions in future. Beyond some vague targets, EBOS is still progressing towards setting specific environmental targets.

Assurance: In the GRI Index of their Sustainability Report, EBOS disclose not having obtained any independent assurance applicable to any ESG data disclosed in the report.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

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

Political Donations: NZSA expects disclosure as to the status and/or policy related to political donations, even if none have been made.

Financial & Performance

Policy Theme	Assessment	Notes
Capital Management	G	See below.
Takeover or Scheme	n/a	*n/a if no takeover*

Ebos' share price fell from $40.15 to $36.29 (as of 11th September 2023) over the last 12 months – a 10% decline. This compares unfavourably with the NZX 50 which declined by 4% in the same period. The company notes its strong 'total shareholder return' over both 3 and 4 year timeframes (82.9% and 74% respectively).

The capitalisation of EBO is $7b placing it 8th out of 128 companies on the NZX by size and makes it a large company.

Metric	2021	2022	2023	Change
Revenue	$9,203m	$10,734m	$12,237m	14%
NPAT[2]	$185m	$203m	$253m	25%
EPS[1]	$1.13	$1.07	$1.32	24%
Inventory Turnover	11.62	10.84	9.91	-8%
PE Ratio	32	36	27	
Capitalisation	$5.8b	$7.6b	$7.0b	-9%
Current Ratio	1.13	1.22	1.13	-7%
Debt Equity	1.81	1.91	1.79	-6%
Operating CF	$298m	$249m	$391m	57%
NTA Per Share[1]	$0.62	-$2.17	-$2.06	n/a
Dividend Per Share[1]	$0.885	$0.96	$1.10	15%

[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 23 up by 14% to $12.2b and subsequently EBITDA was up 40% to $569m. In line with an increased EBITDA, *NPAT* was up 25% to $253m which enabled the company to pay increased dividends of $1.10 for the year. *Dividends* are fully franked in Australia but only partially imputed in NZ. This puts NZ shareholders at a disadvantage to their Australian counterparts.

EBO's profit meant that its *EPS* were $1.32 which is an increase on FY22.

The market has placed EBO on a *PE* of 27. This PE, although high by current market metrics, is on the lower side for EBO. A higher PE does reflect positive market sentiment towards the company.

Operating cashflows were up by 57% to $391m. This was due to a combination of increased revenues and a function of changes in working capital.

Inventories continued to increase, up 12% to $1.2b, and may have contributed to a lower *inventory turnover* ratio which fell by 8% to 9.91. This reflects the stock holding requirements for customers of EBOS' Medical Technology business, which has expanded due to organic growth and FY22 acquisitions.

The balance sheet remains strong with a positive *current ratio* and 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 retired $399m of interest-bearing debt and total debt is now $978m.

EBO have a negative *NTA* (-$2.06) after adding a substantial amount to their intangibles in FY22 and continuing this trend in FY23. Intangible assets relate to goodwill associated with acquisitions; an acquisitive approach has underpinned EBOS' growth in recent years. Total intangibles are $2.5b, and reflect the future (positive) cashflow of the business. The intangibles amount is larger than their equity of $2.3b, with the valuation being well-tested by EBOS' auditors.

In a bland outlook statement on page 25 of an investor presentation, *"EBOS is pleased with the strong earnings growth in the first half of FY23 and we expect another full year of profitable growth. EBOS' balance sheet is strong and well positioned to pursue growth opportunities".*

Resolutions

1. To elect Julie Tay as an Independent Director.

Julie Tay was appointed to the Board 15 May 2023 and is therefore required to offer herself for election. She is currently a director of Sonova Holdings, a global hearing care solutions company, headquartered in Switzerland and listed on the Swiss stock exchange. She was formerly Senior Vice President and Managing Director, Asia Pacific for Align Technology, which is a global medical device company focused on the orthodontic and dental markets. Prior to this time, Ms Tay was regional head of Bayer Healthcare (Diabetes Care) in Asia Pacific and also previously held senior executive roles in Asia at Johnson Diversey and Johnson & Johnson. She resides in Singapore.

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

2. To increase the Directors Fee Pool by $78,250 (5%) to $1,643,250.

The current Fee Pool was approved by shareholders at the 2021 ASM. The Board has commissioned KPMG to prepare at independent Report. Whilst the Report notes "*As agreed with the Company, we have provided indicative market data in respect of a comparator group comprising ASX-listed companies with 50% to 200% of EBOS' market capitalisation",* it does not detail the companies.

NZSA expects to see evidence of the comparator group as a matter of transparency.

EBOS nor KPMG has not provided this information. Discussions with EBOS have indicated that the EBOS board is also unaware of the comparator group, as this was selected by KPMG. EBOS instructed KPMG to select relevant comparators in relevant sectors.

We also note the ASX benchmarks and the range of 50%-200% of EBO's market capitalisation.

NZSA believes an ASX/NZX blend would be more appropriate, within a tightened range of 75%-125% of EBOS' market capitalisation. We do recognise the presence of Australian and Singapore-based directors and believe this is appropriate given the nature of EBO's business.

NZSA's own data suggests the proposed fee pool is at the top end of our range.

Accordingly, we will vote undirected proxies **IN FAVOUR** of this resolution.

Notwithstanding this support, NZSA expects greater transparency on the nature of the comparator group and remains uncomfortable with the selected benchmarks of 50%-200% market capitalisation.

3. 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.

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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 Sunday 22 October 2023.**

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

The Team at NZSA