

# SNOWCAP

## Update: Governance Issues Underpinning AGL's Demerger

26 May 2022

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We believe AGL's demerger plan is rooted in poor governance and misaligned interests, undermining both its credibility and motive.

If shareholders can first block the demerger, there is an enormous opportunity in our view, to refresh AGL's leadership with the right experience, incentive structure, and strategic direction.

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In February this year, Snowcap published a [letter](#) and accompanying [presentation](#) outlining why we believe AGL's proposed demerger is both conceptually flawed and environmentally disastrous.

Since then, AGL's management have done little to address our concerns, pressing ahead with the demerger despite mounting criticism from other shareholders. In our view, this tunnel vision from management is emblematic of deeper governance problems at the heart of AGL.

**Today, we are sharing a follow up presentation, outlining our concerns around AGL's governance and leadership, and why we believe they undermine both the credibility and motive of AGL's demerger plan.** Crucially, we believe the demerger is predicated on a fundamental misalignment of interests between management and shareholders.

Our presentation – attached below – highlights the following critical issues:

- 1. Undisclosed Conflict of Interest.** Undisclosed to investors, AGL uses a company related<sup>1</sup> to its CEO Graeme Hunt for haulage services at two of its coal plants<sup>2</sup>. In our view, this creates a significant conflict of interest, potentially incentivising Mr Hunt to keep AGL's coal plants open for longer.

We believe that this arrangement compromises both Mr Hunt's position as CEO and his endorsement of the demerger.

- 2. Misalignment of Interests.** Mr Hunt and Mr Botten own just A\$360 thousand of stock between them; the smallest combined shareholding of any CEO and Chairman in the ASX 100.<sup>3</sup> Meanwhile, Mr Hunt stands to benefit substantially from the demerger, having manoeuvred himself from Interim CEO into a permanent CEO role at Accel.
- 3. Management have Lost the Support of AGL's Employees.** Indicative of the lack of support for the demerger amongst employees, AGL's CEO Mr Hunt has one of the

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<sup>1</sup> Mr Hunt is the Chairman of Bis Industries

<sup>2</sup> <https://bisindustries.com/news-media/news/bis-secures-three-year-contract-extension-with-agl/>

<sup>3</sup> Capital IQ

lowest employee approval ratings of any CEO in the ASX100; just 51%<sup>4</sup>. In particular, AGL's employees have expressed frustration at a lack of direction from management and repeat restructurings.

- 4. AGL's Board Lacks Independence.** CEO Mr Hunt was directly involved in the appointment of AGL's 5 key board members in his prior capacity as member / chair of the nominations committee. Supposedly independent director and chair of People & Performance committee Ms Smith-Gander worked alongside Mr Hunt for five years at Broadspectrum (formerly Transfield Services) prior to AGL.
- 5. Concerning ESG Record.** CEO Mr Hunt previously served as President of natural resource lobbying group AREEA, during which time he oversaw the publication of research arguing against bringing forward coal closure dates.

Not only do our findings substantially undermine the rationale for AGL's demerger in our view, they also demonstrate the huge opportunity for management improvement at AGL. We believe that if shareholders can first vote down the demerger, a rejuvenated leadership team with the right experience, incentive structure, and strategic direction, would have enormous potential to create value.

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<sup>4</sup> Most recent rating as per Glassdoor.

# Transition AGL

**UPDATE: Governance Issues  
Underpinning AGL's Demerger**

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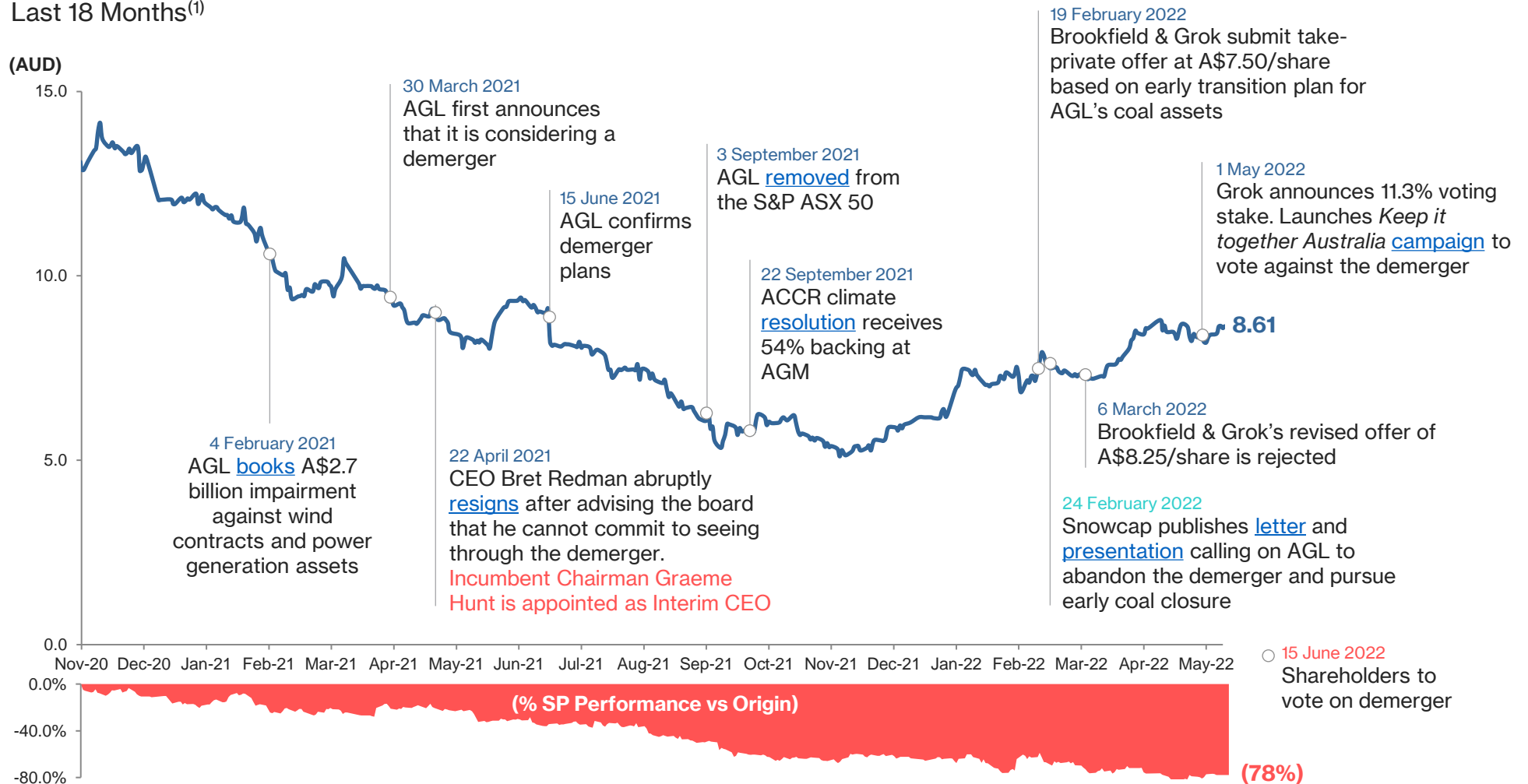
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# AGL Timeline Overview

## AGL Share Price vs Key Events

Last 18 Months<sup>(1)</sup>



1. As of 25/05/2022.



# AGL's demerger is rooted in **poor governance** and **misaligned interests**

1	Undisclosed Conflict of Interest	<ul style="list-style-type: none"> <li>• <b>CEO Graeme Hunt also serves as Chairman of Bis Industries, which – undisclosed to investors – provides haulage services to two of AGL's coal plants. We believe that this creates a major conflict of interest, personally incentivising Mr Hunt to keep AGL's coal plants running for longer</b></li> </ul>
2	Misaligned Interests	<ul style="list-style-type: none"> <li>• <b>Mr Hunt and Mr Botten own less than A\$360k of stock between them: the lowest combined shareholding of a CEO &amp; Chairman in the ASX100<sup>(1)</sup></b></li> <li>• Mr Hunt stands to benefit from the demerger having manoeuvred himself from acting CEO into a permanent CEO role at Accel</li> </ul>
3	Loss of Employee Support	<ul style="list-style-type: none"> <li>• <b>Mr Hunt has one of the lowest employee approval ratings<sup>(2)</sup> of any CEO in the ASX100</b></li> <li>• Employees have expressed frustration at management's lack of clear direction and constant restructurings</li> </ul>
4	Lack of Board Independence	<ul style="list-style-type: none"> <li>• CEO Mr Hunt was directly involved in the appointment of 5 of AGL's key<sup>(3)</sup> board members in his prior capacity as member / chair of the nominations committee</li> <li>• "Independent" Chair of remuneration committee<sup>(4)</sup> Ms Smith-Gander worked alongside Mr Hunt for 5 years at Broadspectrum prior to AGL</li> </ul>
5	Concerning ESG Record	<ul style="list-style-type: none"> <li>• CEO Mr Hunt previously served as President of natural resource lobbying group AREEA, during which time he oversaw the publication of research arguing against bringing forward coal closure dates</li> </ul>

1. Market Value, Source: Capital IQ

2. Glassdoor data as of May 2022

3. AGL board members appointed prior to initial demerger plan announcement in March 2021

4. Defined as AGL's People & Performance Committee, whose primary function is "to assist the Board in fulfilling its responsibilities through the appropriate recruitment, retention and remuneration of senior managers and other employees with the capabilities and skills necessary to execute AGL's business strategy."

# Undisclosed conflict of interest: Company related to CEO Hunt provides haulage services to AGL’s coal plants

CEO Graeme Hunt also serves as Chairman of *Bis Industries*, which – **undisclosed to investors** – provides haulage services to two of AGL’s coal plants. We believe that this creates a major conflict of interest, potentially incentivising Mr Hunt to keep AGL’s coal plants running for longer.

## Mr Hunt’s Conflict of Interest

**Graeme Hunt** · 3rd  
MD & CEO at AGL Energy

**Managing Director and CEO**  
AGL Australia · Full-time  
Jul 2021 - Present · 11 mos  
Australia

**Chairman**  
Bis  
Jul 2018 - Present · 3 yrs 11 mos  
Australia

Graeme Hunt LinkedIn<sup>(1)</sup>

**Bis secures three-year contract extension with AGL**

Leading resources logistics provider Bis has been awarded an extension to its long-term contract with AGL Macquarie ('AGL'); continuing equipment hire and site services at the company's two power generation facilities in the upper Hunter Valley region of New South Wales.

Bis Industries Press Release<sup>(2)</sup>  
18 August 2020



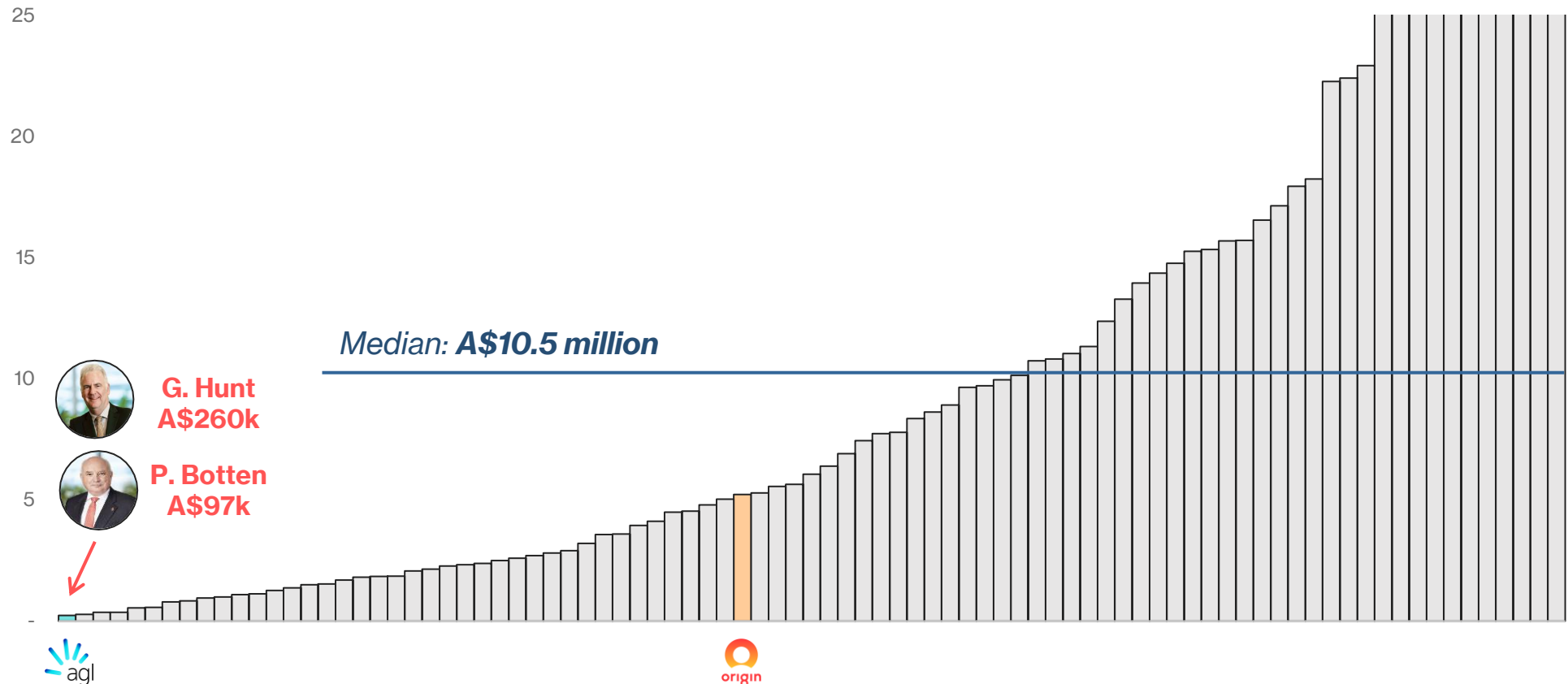
**AGL’s proposed demerger could benefit Bis Industries by prolonging the operation of Bayswater Coal Plant**

1. <https://au.linkedin.com/in/graeme-hunt-95979926>

2. <https://bisindustries.com/news-media/news/bis-secures-three-year-contract-extension-with-agl/>

# Lack of ownership: Mr Hunt & Mr Botten own just A\$360k of stock between them – the smallest combined shareholding of a CEO & Chairman in the ASX100

CEO & Chairman Combined Stock Ownership – ASX 100<sup>(1)</sup>  
Market Value (A\$m)



Source: Capital IQ as of 25/05/2022.

Note: For reference, Mr Hunt's base salary as interim CEO is A\$1.55 million. Mr Hunt was awarded a one-off equity grant of A\$600k in April 2021 upon assuming his current role.



## Vested interests: Demerger will benefit Mr Hunt who has manoeuvred himself from Chairman of AGL into a A\$1.5m-a-year permanent CEO role at Accel

In April 2021, incumbent Chairman Graeme Hunt was appointed Interim CEO of AGL following Brett Redman's resignation. One of Mr Hunt's primary duties in this role was to "lead" AGL's search for CEOs of the two demerged entities: Accel and AGLA.

*"Mr Hunt will lead AGL throughout the process of planning for the structural separation, which is continuing, and includes consideration of the appropriate long-term leadership of the two proposed new businesses."*

AGL Press Release<sup>(1)</sup>  
20 April 2021

In June 2021, AGL announced that Mr Hunt had been identified as the permanent CEO to lead Accel. **This was despite Mr Hunt's lack of prior executive experience in the utilities/power sector<sup>(3)</sup>.**

*"Graeme Hunt, currently Interim Managing Director & CEO of AGL Energy, has been identified as Managing Director & CEO of Accel Energy."*

AGL ASX Release<sup>(2)</sup>  
30 June 2021

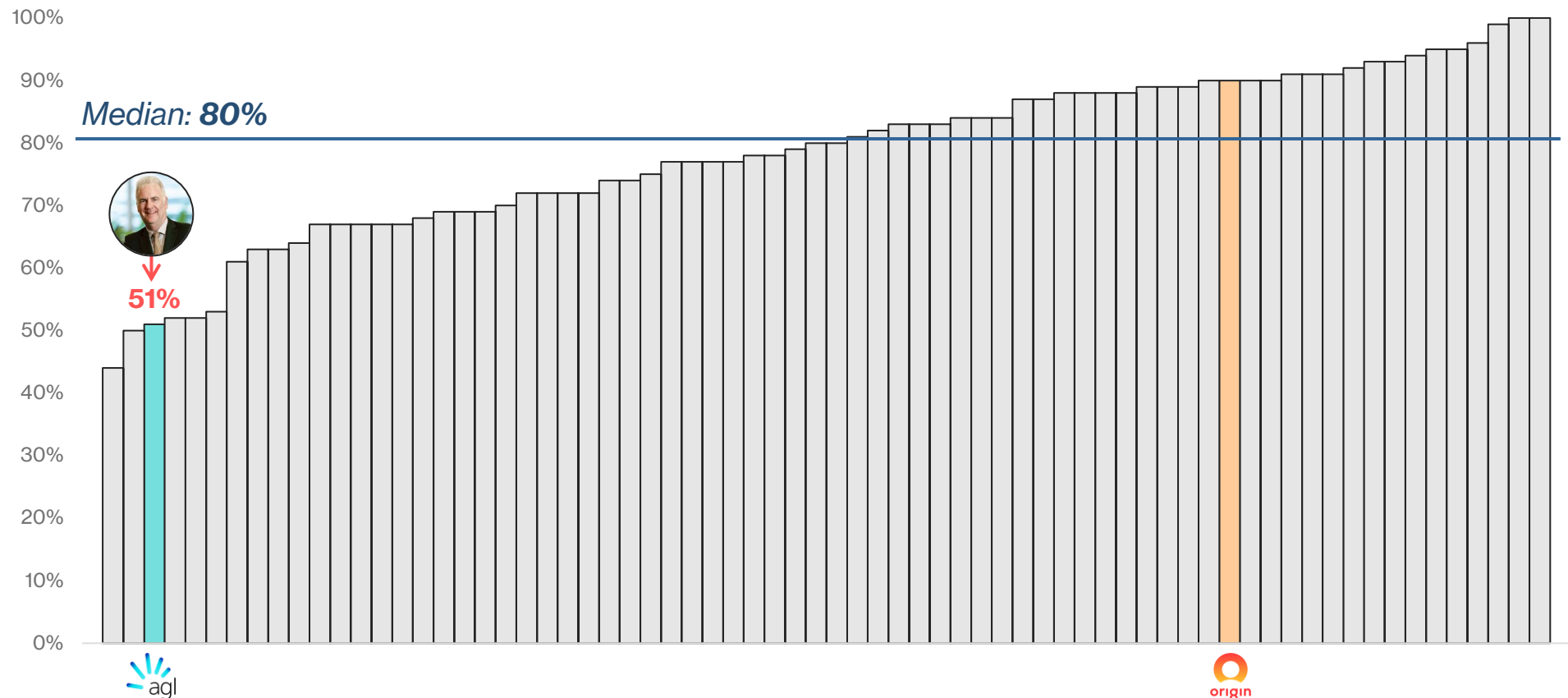
Note: this is not the first time that Graeme Hunt has maneuvered from Board Member to Interim CEO to permanent CEO - he followed this same progression at Broadspectrum (<https://www.afr.com/markets/equity-markets/literally-zero-sense-agl-chairman-under-fire-over-ceo-exit-20210425-p57m7a>).

- <https://www.agl.com.au/about-agl/media-centre/asx-and-media-releases/2021/april/change-to-ceo-and-chairman>
- <https://www.agl.com.au/about-agl/media-centre/asx-and-media-releases/2021/june/confirmation-of-intention-to-demerge-announcement-of-dividend-and-affirmation-of-earnings-guidance>
- According to his LinkedIn profile, Mr Hunt's professional experience includes executive roles at BHP (Mining & Metals) from 1980-2007, Lihir Gold (Mining & Metals) in 2010, and Broadspectrum (Infrastructure Services) from 2012-16. Prior to his appointment as Interim CEO of AGL Energy in April 2021, Mr Hunt does not appear to have had any executive experience within a utility or power generation company.

# Mr Hunt has one of the **lowest employee approval ratings of any CEO in the ASX100**

## CEO Approval %, ASX100 Constituents<sup>(1)</sup>

Glassdoor data as of May 2022. Excludes CEOs with fewer than 10 ratings.



Source: Glassdoor data as of 24/05/2022

1. Excludes CEOs with fewer than 10 reviews. Data was not available for some companies.

# Lack of consistent vision: Employees have expressed their frustration at AGL's lack of direction and constant restructurings

"If there are 4 restructurings in 2 years, **something must be wrong**"  
July 2021

"There are **too many restructures** and the **wrong people are in leadership roles**"  
October 2021

"Organisational change can really **hinder project progress**."  
October 2021

"Poor management, **too many restructures**"  
November 2021

**"A lot of change and not much strategic direction.**  
Wrong capabilities at management and leadership level"  
November 2021



"Stop rearranging deck chairs on the titanic"  
January 2022

"Constant **restructures can be unsettling**"  
June 2021

"Leadership thinks a reorg every 6 months is fruitful but in fact, the company just **loses money and good people**"  
June 2021

"Regular restructure **creates uncertainty and stress**"  
May 2021

**"Everyone is stuck in flux because of pointless restructures** that take forever to clean up the pieces."  
December 2021

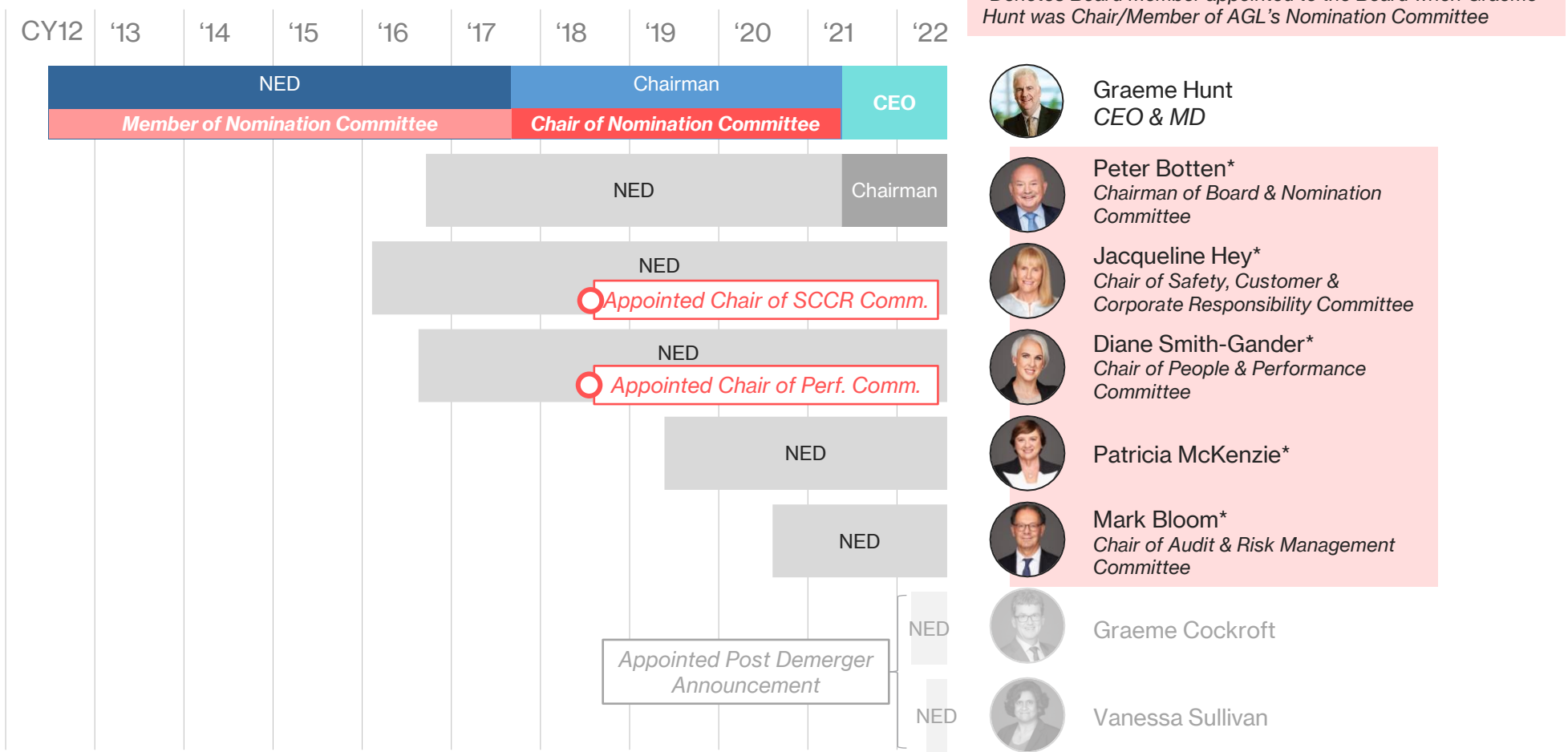
"**Poorly handled restructure, lack of internal development**"  
June 2021

"**Lot's of instability, big structural change taking place...**"  
September 2021

"No strategy. They [management] **run around like chickens trying to stop the sky from falling on their heads.**"  
October 2021

# Captive board: CEO Hunt involved in the appointment of AGL's key board members in his prior roles as Chair/Member of the Nomination Committee<sup>(1)</sup>

AGL's Board of Directors<sup>(2)</sup>



1. Mr Hunt was a Member of AGL's Nominations Committee from September 2012 until September 2017, and Chair of AGL's Nominations Committee from September 2017 until April 2021. According AGL's [Nominations Committee Charter](#), members of the committee are responsible for reviewing "recommendations to the Board in relation to the appointment, election, re-election and retirement of Directors".

2. Company Filings

# Historical ties: CEO Hunt worked with ‘independent’ director Ms Smith-Gander for 5 years at Broadspectrum (Transfield Services) prior to AGL

## Mr Hunt’s and Ms Smith-Gander’s Career Overlap<sup>(1)</sup>



**Graeme Hunt**  
CEO

*Proposed CEO for Accel Energy*



**Diane Smith-Gander**  
NED & Chair of Performance Comm. -  
**Responsible for reviewing CEO compensation<sup>(2)</sup>**

*Proposed NED & Chair of Performance Comm. for Accel Energy*

**Managing Director and CEO**  
AGL Australia · Full-time  
Jul 2021 - Present · 11 mos  
Australia

**Broadspectrum**  
4 yrs 8 mos

- Managing Director and Chief Executive Officer**  
Nov 2012 - Dec 2016 · 4 yrs 2 mos  
Sydney, Australia

**Non Executive Director**  
AGL Energy  
Sep 2016 - Present · 5 yrs 9 mos  
Sydney, Australia

**Chairman**  
Broadspectrum  
Oct 2010 - Sep 2016 · 6 yrs  
Sydney

## AGL’s Demerger Prospectus Omits Broadspectrum Experience from Ms Smith-Gander’s Biography

**Diane Smith-Gander AO**  
Non-Executive Director

If the Demerger is implemented, Diane Smith-Gander AO will be a Non-Executive Director of Accel Energy, and Chair of the People & Performance Committee. Ms Smith-Gander joined the AGL Energy Board in September 2016.

Ms Smith-Gander is currently Chair of Zip Co, HBF Health, DDH1, the Committee for Economic Development of Australia and the UWA Business School Advisory Board. She is also a director of Keystart Loans Group. Ms Smith-Gander was also previously a director of Wesfarmers for over 10 years.

**No mention of Broadspectrum??**

Ms Smith-Gander has extensive Australian and international experience in banking and finance, technology, and strategic and management consulting. This includes as a former partner at McKinsey & Company, and Group Executive IT and Operations, Westpac Banking Corporation.

AGL Demerger Scheme Booklet<sup>(3)</sup>  
May 2022



In her role as Chair of AGL’s People and Performance Committee, Ms Smith-Gander is responsible for overseeing and approving Mr Hunt’s remuneration. AGL’s **demerger will preserve this dynamic**, with Mr Hunt and Ms Smith-Gander assuming roles as CEO and Chair of People and Performance Committee for Accel Energy respectively.

1. LinkedIn.  
2. As Chair of AGL’s People & Performance Committee, Ms Smith-Gander’s duties include “setting and reviewing short and long-term performance objectives for the CEO and evaluating his or her contribution and effectiveness”, “rewarding the CEO and responsibly and fairly for his or her contribution to AGL’s performance”, and “determining recruitment, retention and termination policies and procedures for the CEO” (source: AGL’s People & Performance Committee Charter).  
3. AGL Demerger Scheme Booklet (page 109).

# Mr Hunt was historically involved in lobbying on behalf of special interest groups around coal closure

In 2016, via his role as President of Natural Resource Industry lobbying group AREEA<sup>(1)</sup>, Hunt oversaw the publication of a white paper urging for “caution” on bringing forward Australian coal plant closure dates.



## AREEA urges caution in debate on closure of coal-fired power stations

“The retirement of Australia’s coal-fired power stations will disturb the levels of coal demand required from Australian coal producers, as well as disturb the levels of coal supply available to international markets.”

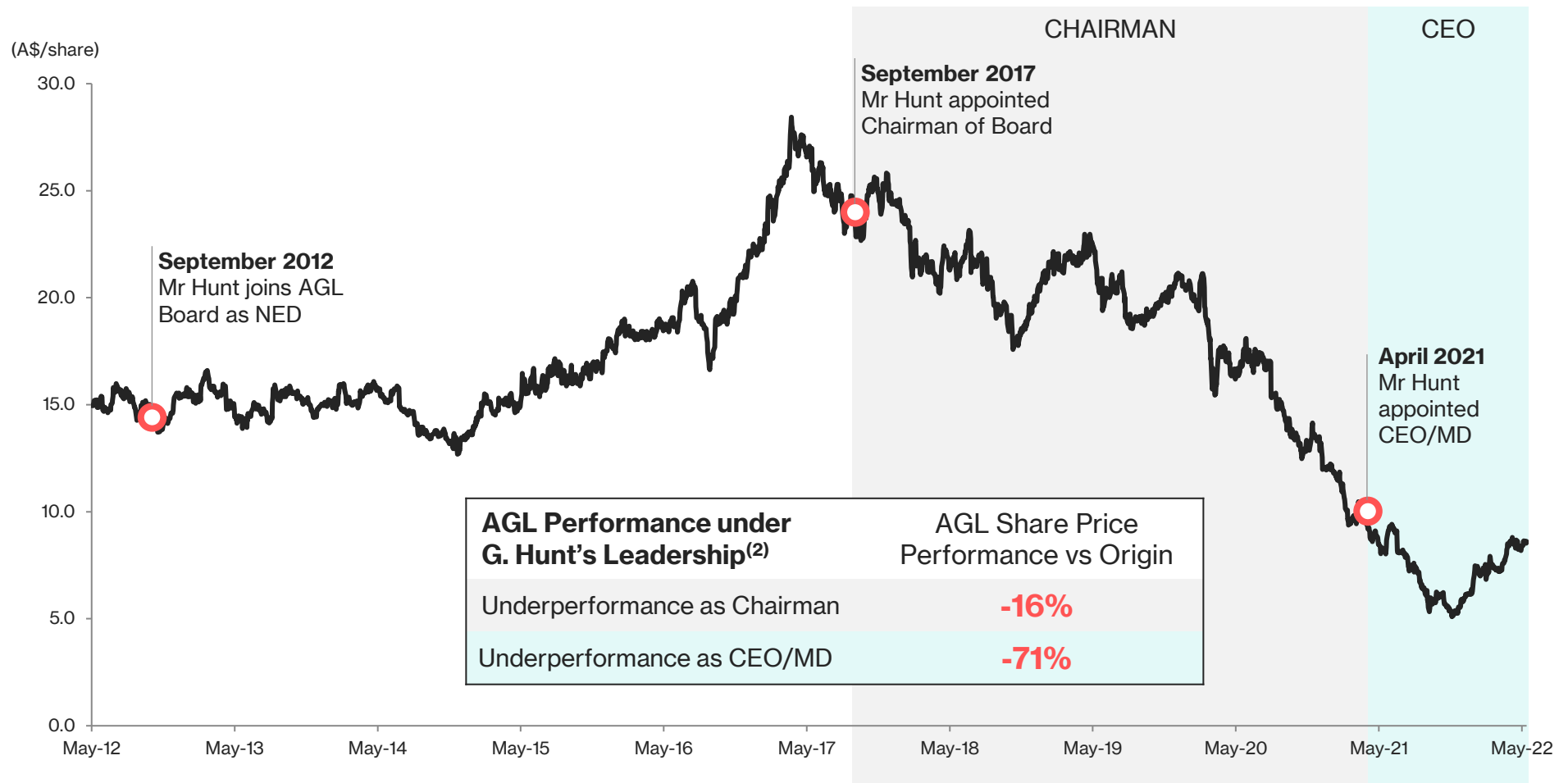
AREEA’s submission to the Senate Environment and Communication References Committee on the inquiry into the retirement of coal fired power stations<sup>(2)</sup>  
November 2016

1. Australian Resources & Energy Employer Association, previously known as AMMA (Australian Mining and Metals Association).  
2. <https://www.areea.com.au/wp-content/uploads/2016/11/2016-11-AMMA-Submission-Coal-Retirement-FINAL.pdf>



# AGL has underperformed under Mr Hunt's leadership

AGL 10yr Share Price Performance<sup>(1)</sup>



1. Data from Capital IQ as of 25/05/2022.

2. Underperformance defined as AGL's relative share price performance compared to closest peer Origin Energy (ASX:ORG). Underperformance as Chairman covers period from 27/09/2017 until 21/04/2021. Underperformance as CEO/MD covers period from 22/04/2021 until 25/05/2022.

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