



OWNERSHIP MATTERS

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Senate Economics Legislation Committee
Parliament House
Canberra ACT
Email: economics.sen@aph.gov.au

Inquiry into Coronavirus Economic Response Package Amendment (Ending JobKeeper Profiteering) Bill 2021

Dear Committee,

Thank you for the opportunity to make a submission on the Committee's inquiry. Ownership Matters (OM), formed in 2011, is an Australian owned governance advisory firm serving institutional investors. This submission represents the views of OM and not those of its clients.

Our comments are confined to our examination of Australian listed entities (ASX 300 companies) that received JobKeeper in calendar 2020. Our interest stems from our role advising institutional investors who rely on the audited financial statements of listed entities to make investment decisions and to ascertain the financial health of a listed entity.

During calendar 2020 we identified that JobKeeper receipts had the potential to materially affect the earnings of the entities we analyse. We set about documenting the "one off" benefits of JobKeeper during 2020 for two reasons:

- to assist our clients to make appraisals about the earnings quality of the entities that received it, and
- to help our clients make an assessment about whether executive bonuses that were rewarded during this period were deserved or not.

This work was enabled by separate disclosure of JobKeeper for public companies that was mandated by ASIC release 20-157MR [Focuses for financial reporting under COVID-19 conditions](#). This edict required companies to "appropriately account for each type of support and assistance from government, lenders, landlords and others" and specifically called for the full impact of JobKeeper to be communicated to the users of financial accounts. Without this regulatory expectation, disclosure of JobKeeper received by public companies in calendar 2020 would likely not have been as forthcoming.

We produced two reports -

- *JobKeeper & other government subsidies* dated 9 September 2020 which detailed the effect of the subsidy for ASX 300 companies for the period ended 30 June, 2020 (including an analysis of executive bonuses); and
- *An Update on JobKeeper & other government subsidies* dated 17 March 2021 which detailed the effect of the subsidy for ASX 300 companies for the period

ended 31 December, 2020 (including an analysis of preferred earnings measures).

Both reports are attached as appendices to this submission and may provide some context to aid the Committee's work.

The JobKeeper amounts received by ASX 300 companies for calendar 2020 total \$2.45b. This represents approximately 3% of the \$82.8b expended in this period¹.

Repayment of JobKeeper

OM expresses no view about the criteria or mechanism for repayment that is detailed in the Bill. However we note that there is no requirement for any private company to separately record whether it had paid "a bonus to an executive" in any period, which may present a significant practical impediment to the Bill's operability.

It is notable that of the twenty-three ASX 300 companies that received a vote of 25% or greater against their remuneration report in 2020, seven had received JobKeeper. This includes companies such as The Star Entertainment Group Ltd, Qube Holdings Ltd and Accent Group Ltd.

We note that the public disclosures made by ASX companies during calendar 2020 resulted in significant attention from investors and the media.

Following this scrutiny some public companies announced a decision to voluntarily repay a component of the JobKeeper they had received in calendar 2020. In aggregate:

- 75 companies received \$2.45b in JobKeeper.
- Only 20 of those ASX companies have announced their intention to repay, representing a total of \$139.8m of the \$292.0m (pre-tax) they received.
- All the 20 companies were profitable in the calendar 2020 period and 11 of this group reported that their preferred earnings measures were better at 31 December 2020 than at the same time in December 2019.

A list of ASX 300 companies that have announced their intention to voluntarily repay JobKeeper is attached as an Appendix.

In general most companies repaid an amount approximating the after-tax benefit of JobKeeper received in the second half of calendar 2020. However in some instances companies decided to repay amounts that they had determined represented the "net benefit" derived from JobKeeper. For example Premier Investments announced its intention to repay \$15.6m in 'net benefit' from JobKeeper² it had received in the two months of August and September 2020. This figure is impossible to reconcile as Premier did not disclose the gross amount of JobKeeper it received.

¹ <https://www.abs.gov.au/articles/government-support-business-december-quarter-2020>

² https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02370359-3A566415?access_token=83ff96335c2d45a094df02a206a39ff4

Whilst it is impossible to determine a universal motivation for the decisions of listed entities, OM believes that it is no coincidence that the small amount of JobKeeper pledged for return to the Government came about following public disclosure. Many of the entities that chose to repay had reported improved earnings performance in the second half of calendar 2020 when compared to the pre-pandemic period.

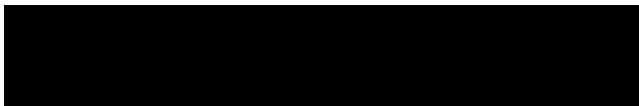
To our knowledge there has been no reliable public disclosure on the total amount of JobKeeper repaid to date, however based on [disclosures](#) (at p. 55) to the Senate Economics Legislation Committee on 1 June 2021 by Treasury and ATO officials, 33 entities had repaid \$159m of JobKeeper. A further 14 entities were 'in discussions' to repay a further \$66m.

OM is aware of four ASX companies outside the ASX 300 (Australian Clinical Labs, Peter Warren Automotive, Universal Store and Dusk Group) that have repaid \$40.7m. Additionally Toyota Motor Corporation Australia (a public company in Japan) has acknowledged that it has repaid \$18m.

These data suggest that of the total of \$225m in JobKeeper pledged for return, at least \$198.53m (or a lucky 88%) has come from public companies that have disclosed JobKeeper receipts and financial performance. In the absence of a public register, such as that contemplated by the Bill, private entities (which have received almost \$90b of the entire JobKeeper expenditure in the period to 31 March 2021) are not subject to any similar, uniform disclosure that would attract public scrutiny that, in turn, may 'encourage' repayment.

Please feel free to contact us concerning any aspect of our submission. For the avoidance of doubt we are happy for our submission to be made public.

Yours sincerely,



Dean Paatsch & Martin Lawrence

Ownership Matters Pty Ltd

Appendix: ASX 300 entities returning JobKeeper (JK) and performance

ASX Code	Company Name	JK Received (\$m)	JK Repaid (\$m)	Earnings Measure	Earnings at Dec 2020 (\$m)	Earnings at Dec 2019 (\$m)
PMV	Premier Investments Limited	76.4 ³	15.60	PBT	236.70	124.50
COH	Cochlear Limited	46.20	23.10	EBIT	175.60	183.70
QUB	Qube Holdings Limited	30.30	16.80	EBIT	87.30	89.50
CIM	CIMIC Group Limited	20.00	20.00	PBT	838.50	1,099.90
MGR	Mirvac Group	19.00	10.50	EBIT	364.00	460.00
SEK	SEEK Limited	18.00	9.80	EBITDA	245.90	247.40
SGM	Sims Limited	14.00	7.50	EBIT	56.40	(23.20)
HLS	Healius Limited	14.00	1.30	EBIT	136.60	63.30
ILU	Iluka Resources Limited	13.60	13.60	EBITDA	423.10	616.00
INA	Ingenia Communities Group	9.50	1.70	EBIT	40.30	32.20
NCK	Nick Scali Limited	7.10	3.56	PBT	57.60	28.80
CKF	Collins Foods Limited	4.20	1.80	EBIT	93.30	81.40
STO	Santos Limited	4.00	4.00	EBITDAX	1,898.00	2,457.00
SUL	Super Retail Group Limited	3.20	1.70	EBIT	256.00	115.40
ALQ	ALS Limited	3.50	2.45	EBIT	135.20	158.50
NEC	Nine Entertainment Co. Holdings Limited	2.60	2.00	EBITDA	355.40	250.80
DMP	Domino's Pizza Enterprises Limited	0.8 ⁴	0.80	EBIT	153.00	115.60
LYC	Lynas Corporation Limited	2.02	1.02	EBITDA	80.60	44.20

³ PMV did not disclose the total amount of JobKeeper received. The \$76.4mn figure is a conservative estimate based on total government subsidies disclosed by PMV in the 12 months to July 2020 with the proportion of JobKeeper of the subsidies determined based on Australia as a proportion of revenue and taking account of >5000 employees resident in Australia.

⁴ DMP disclosed it received \$792,000 of JobKeeper in FY20.

BKL	Blackmores Limited	3.4 ⁵	2.40	EBIT	30.80	26.80
ABC	ADBRI Limited	0.20	0.20	EBIT	178.90	186.40

Note: Entities with reporting dates outside of 30 June and 31 December have been approximated to the nearest reporting period for comparison purposes. For example, for ALQ the data is from 30 September 2020 and 30 September 2019 and for PMV from January 2021 and January 2020. For CKF it is for the year ending 2 May 2021 and the year to 3 May 2020.

Attachments:

JobKeeper & other government subsidies, 9 September 2020, Ownership Matters

An Update on JobKeeper & other government subsidies, 17 March 2021, Ownership Matters

⁵ BKL did not itemise what proportion of the government subsidies it received related to JobKeeper; the amount disclosed is an estimate of the pre-tax amount returned.