Could hybrid AGMs – when in-person and online gatherings happen simultaneously – resolve the annual shareholder meeting empty room problem?

By Ben Power

TWO PLACES AT ONCE

The traditional annual general meeting (AGM), once the centrepiece of the corporate calendar, has fallen out of favour, with directors and executives increasingly scanning empty rooms at these events. According to share registry Computershare, the percentage of shareholders attending AGMs in Australia is in steady decline, falling to just 0.15 per cent in 2017.

"We can't keep doing the same thing and expect a different outcome," says Greg Dooley, managing director of Computershare Investor Services in Australia. "We have to try something. Hybrid AGMs may be part of that solution."

In a bid to reignite shareholder engagement, a handful of ASX-listed companies are trying just that by simultaneously holding physical and online meetings. They include Computershare, fellow registry Link Group, New Zealand-based construction firm Fletcher Building and accounting software firm Xero.

Their experience shows while hybrid AGMs require additional expense, technology and investor relations skills, they are becoming more affordable. More importantly, they are helping to drive better shareholder engagement at AGMs.

Some argue virtual-only AGMs are inevitable. "It will eventually happen in some shape or form," Dooley says.

Virtual AGMs are attractive for companies because they cut costs. For example, there is no need to hire expensive venues. They also meet a new generation of investors' requirements, who want to access AGMs from any location via a variety of media.

AGMs staged purely online were pioneered in the US, with the first one held in 2001 by technology consultant Inforte Corp. But Dooley says a number of big technology failures during early meetings in other parts of the globe prompted companies to take stock. Virtual AGMs are now starting to take off again in the US with the likes of energy business ConocoPhillips, telco giant Comcast, car manufacturer Ford and IT hardware firm Hewlett-Packard holding online-only shareholder meetings.

But progress has been slow. Dooley notes, "other than the US, not many countries are racing ahead." In 2016 Jimmy Choo became the first UK company to host a virtual AGM, but they remain relatively uncommon in Europe. They are allowed in New Zealand. But Australia is very much at the beginning of the use of online technology for AGMs.

Virtual AGMs are off the table in Australia where they are not permitted. Companies that want to use online technology have been forced to host hybrid AGMs instead. But take up has been slow because of concerns around the reliability of the technology and cost. While virtual AGMs promise to lower cost, hybrids increase costs. The cost of the physical meeting must be funded along with the online meeting.

Dooley says the main driver of hybrid AGMs, therefore, needs to be better shareholder engagement. "If you do the analysis and look at the potential for better shareholder engagement, assuming that's what listed businesses want to drive, the business case stacks up pretty easily."

ASIC Commissioner John Price, however, has written publicly that the regulator strongly supports the use of technology to enhance shareholder engagement and participation in annual general meetings. This includes holding a hybrid AGM, as long as the technology

Illustrations by POFO

doesn't detract from compliance with the corporate laws.

Despite that uncertainty, the companies forging ahead with hybrid AGMs report positive experiences.

Dually-listed Fletcher Building held a hybrid AGM on 20 September last year. Rodney Deacon, Fletcher's head of investor relations, says one reason it decided to hold a hybrid meeting is because the company has a diverse base of retail investors and 70 per cent international ownership. "It was really a desire to give more shareholders access to the meeting, no matter where they are located," he says, adding New Zealand investors want access to announcements, analyst calls, presentations and investor days from wherever they are.

Fletcher used Nasdaq IR to webcast the AGM, as well as Computershare and Lumi's app, which allows investors to vote and ask questions in real time. "There was no issue with technology whatsoever," Deacon says.

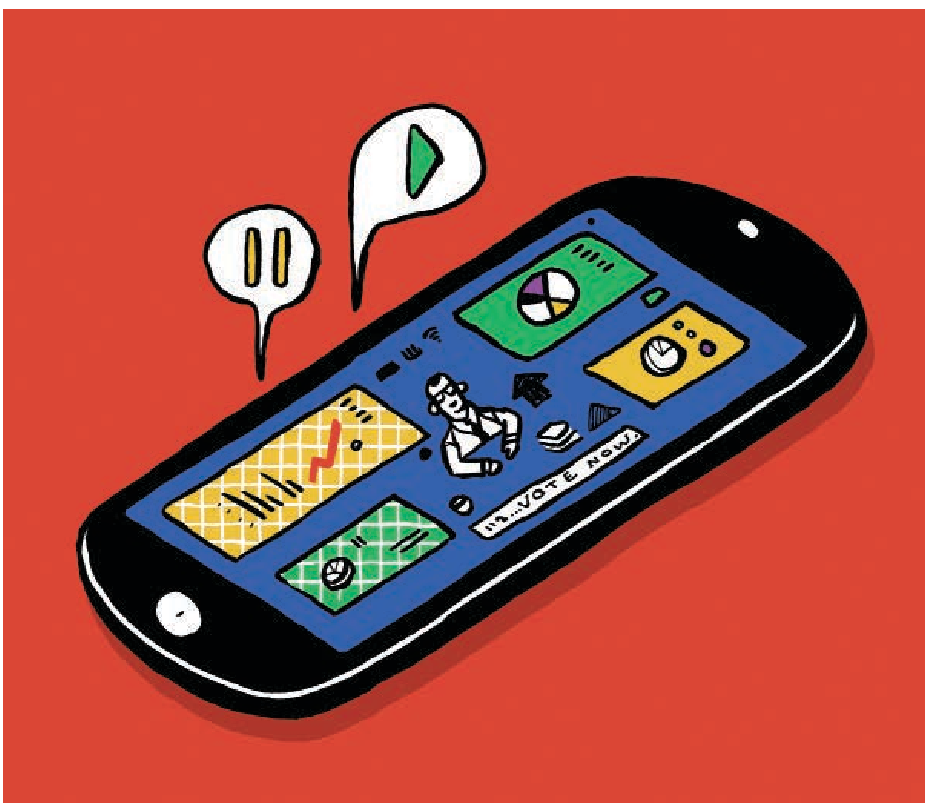
He challenges the notion the cost of holding hybrid AGMs is prohibitive. "A lot of people probably think it's quite costly. But apart from what you already have in the room for the AGM, not a lot of additional technology is required," he says, adding companies could save more if expensive handsets used by voters in the AGM venue are replaced by virtual voting apps accessed on mobile devices.

Deacon says staging a hybrid AGM requires companies to develop new skills around virtual questions. Managing the way questions from the online audience are communicated to the chair is an example.

"It's definitely a new skill. If you have just a physical meeting, the chair would use his or her skills to moderate questions," he says.

The app allows companies to either push questions straight through to the chair's screen, or for them to be viewed first by a moderator. Fletcher chose the latter, which they practised before the AGM. During the meeting Deacon was logged onto the app and shareholder questions appeared on his screen.

"We thought there was a lot more chance for people to sit behind keyboards and write things in a more blunt or abusive way," Deacon says, who notes the chair has the right to amend any question from the floor. "But the questions we were asked online didn't require much editing at all," he says.



Deacon recommends other companies considering hybrid AGMs lean heavily on their registrar. They should practise receiving questions with the chair and any others who might be called on to respond to shareholder queries. Companies also need to ensure when writing presentations that they build in pauses to enable people online to be included in the meeting, either by giving them time to collate their questions or time to vote. "You need very clear prompts in your scripts as to when people online need to do things or could do things by," he says.

So far hybrid AGMs have received investor imprimatur. "We support the greater use of technology," says Edward John, executive manager, governance, engagement and policy at the Australian Council of Superannuation Investors (ACSI), which represents super funds.

"The international investors we speak to are astounded ASX-listed companies can still pass resolutions on a show of hands. They are astonished such a mechanism exists in a developed market in the 21st century," he says.

Diana D'Ambra, chair of the Australian Shareholders' Association (ASA) is also supportive. The association held a hybrid AGM in Brisbane in May 2017, with members logging in from around Australia. It was the first meeting of its kind by an unlisted public company in Australia.

D'Ambra agrees technology is no obstacle to a fruitful hybrid AGM. "The technology was unbelievable. We had people in Western Australia outside major centres logging in and there was no delay," she says. The cost of hosting a virtual AGM is falling and the ASA will host another one in May.

But D'Ambra acknowledges some concerns, especially around how questions are asked. She says they need to be visible to all attendees so there is no perception questions are being filtered or sanitised. Companies should also provide answers later on to questions that were unable to be addressed at the time of the AGM, perhaps online.

John Price has warned that when hosting hybrid AGMs, "technology should not be used to disenfranchise particular shareholders or particular groups of shareholders by cherry-picking questions submitted by online participants or to otherwise selectively avoid opportunities for dialogue."

Nevertheless, shareholders still baulk at not being able to personally attend AGMs. The move to virtual meetings in the US has triggered a backlash, with the likes of the Council of Institutional Investors urging companies not to hold online-only AGMs amid fears they will remove shareholder access.

"We see AGMs as a key accountability forum for listed boards," ACSI's Edward John says. "At ACSI we can easily engage with boards outside the AGM. But it is important to acknowledge for many investors the AGM is their only opportunity to ask questions of the boards they elect."

"From an investor point of view we still want the physical meetings to take place," D'Ambra agrees.

"I think it's good, no matter how small a physical meeting may be, to also have the opportunity for people to turn up virtually and participate. Although many of our members regularly participate in investment webinars and corporate updates I don't think we're ready yet to go to totally virtual AGMs here in Australia."

While a move to virtual AGMs may be inevitable, Dooley says an online-only AGM in Australia is unlikely anytime soon. "If someone tried to hold a virtual-only meeting, expect scrutiny," he says. "The law would get tested pretty quickly."

Dooley doesn't accept there is a link between physical meetings and good governance. "The companies that want to do the right thing will do the right thing regardless whether there's an AGM. I don't necessarily see a physical meeting being mandatory to say you have good governance."

He notes AGMs report the company's performance three to four months in the past. "You're working on something out of date."

One solution is to have a virtual AGM held at around statutory reporting time for the formal part of voting on issues such as director re-elections, changes to constitutions and special resolutions. Companies would then hold a shareholder information session at any time during the year.

"I think you'll find a lot of people would support that model," Dooley says. "As long as there is an outlet or another event – whether it be a shareholder information meeting or road show – at which shareholders who want to meet with management and the board physically can, then I don't see any reason why you can't have virtual AGMs," he explains.

D'Ambra says splitting the informal and formal aspects of AGMs could work as long as there is still discussion around resolutions.

Fletcher's Deacon says virtual-only is a step too far for his company. "Although the listing rules in New Zealand do potentially allow for virtual-only meetings, we would be unlikely to go that way because feedback from investors tells us that people still like to have the ability to see the board in person, and some legal advice has suggested that in the event that technology failed we could be challenged as to whether a quorum was reached."

So for now, it appears companies will focus on bedding down the hybrid AGM model.

Fletcher deemed its hybrid AGM a success: attendance increased from the year before with 112 people, or a quarter of the total attendees, joining the meeting online.

Of the people accessing and voting at the meeting using the app, more than a third did so on a mobile device like a smart phone or tablet. "It showed people did use the service to vote and participate in the meeting," Deacon says. He notes the use of technology didn't affect the tone or length of the event.

Dooley argues Computershare's hybrid AGM also increased shareholder engagement. Some 97 people attended the AGM in total, including 42 remotely, a 7.5 per cent increase on the previous year.

D'Ambra believes we will reach an inflection point where most companies will host hybrid AGMs. "We're not there yet," she says, adding most companies prefer to sit on the sidelines and observe and monitor how other companies' hybrid AGMs go.

"But people are experimenting which is good. The technology is going to take us there quite quickly and it's only getting better."

Dooley expects a slight increase in the number of Australian companies holding hybrid meetings in 2018. "AGMs are not going anywhere – you're not going to be able to abolish them – so try something different, with the potential to engage more shareholders."