

# Stobart Group Limited

(incorporated under the laws of Guernsey with registered number 39117)

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15 June 2018

**Dear Stobart Group shareholder,**

I am writing to provide you with further information in relation to the actions which the Company has been obliged to take in order to protect the interests of all shareholders.

There are a number of key points to bring to your attention:

- Stobart Group is changing from a collection of emerging businesses into a more tightly focused group. The building blocks are in place for the main drivers of value, the Aviation and Energy divisions, to generate operating profit and cash and create significant value for all shareholders.
- The announcement on 13 June 2018 by Ryanair that it would be delivering an additional one million passengers to London Southend Airport from next year onwards is ample testament to that.
- This evolution requires a different management style to the entrepreneurial approach which nurtured the original business initiatives. It demands consistent strategy, professional management and accountability, all supported by an independent board that protects the interests of all shareholders and facilitates delivery of the long-term success of the Company.
- Andrew Tinkler's move to oust the Chairman and replace him with his own nominee ran totally counter to this. It is his right as a shareholder to propose a change. However, his wider actions, particularly in writing to all employees, have now threatened to destabilise the Company and have put at risk the interests of all shareholders.
- This is why the Company had no alternative other than to dismiss him yesterday.
- Our Chief Executive and his management team are highly experienced in growing businesses and delivering value to all shareholders. They need to be able to do so against a background of stability supported by an independent board.

**This is why it is so important that you support the re-election of Iain Ferguson as a Director.**

**Background**

On 25 May 2018, the Company announced that the Board had been advised by Andrew Tinkler, Executive Director, that he would be voting, at the forthcoming Annual General Meeting of the Company, against the re-election of Iain Ferguson, as a Director and Chairman of the Company. The Company also announced that all other Directors offering themselves for election or re-election at the AGM had full confidence in Iain Ferguson, both as a Director and as Chairman, and would therefore be recommending to shareholders that they vote in favour of Iain Ferguson's re-election. Invesco Asset Management Limited, acting as agent for and on behalf of its discretionary managed clients, the Company's largest shareholder, also affirmed its support for Iain Ferguson.

I would like to set out the background to this very regrettable situation, and the reasons I would urge you to vote in favour of Iain's re-election.

Five years ago, we listened to our shareholders when they said they wanted Stobart Group to commit to a focused strategy alongside the highest standards of corporate governance to improve shareholder returns for the long-term.

Stobart Group committed to doing this and has reaped the benefits ever since. We appointed Iain Ferguson as Chairman and Andrew Wood, John Coombs and John Garbutt as Non-Executive Directors. They brought challenge, scrutiny and robust debate to our boardroom along with relevant, valuable experience.

When Andrew Tinkler advised the Board that he wanted to step down from his role as Chief Executive, we were delighted to welcome Warwick Brady, who was Andrew Tinkler's choice as his successor. Since his appointment, first as Deputy Chief Executive in January 2017 and then as Chief Executive in July 2017, Warwick has brought deep industry expertise and experience to the Group that is well aligned with our strategy.

His strong management capabilities will help drive continued growth across the Company, and his aviation industry knowledge will be critical in realising the significant value we see in this area of the business. He has already demonstrated his ability to make a difference, with passenger numbers at London Southend Airport up 30% in FY 2017/18 even before this week's exciting announcement that Ryanair is to base three planes at London Southend Airport from next Summer.

This agreement is expected to generate a further one million passengers per annum, doubling the airport's passenger numbers, and is testament to the aviation sector skills and contacts that Warwick has brought to the role and the hard work of his management team.

Stobart Group now has the framework within which to pursue a focused and ambitious strategy to double the value of the business by 2022, and we firmly believe we have the right team in place to work toward our goals to welcome five million passengers annually at London Southend Airport, deliver three million tonnes of biomass each year and secure even more third party civil engineering contracts by that time.

## **Andrew Tinkler**

We therefore deeply regret that Andrew Tinkler chose to destabilise the Group at this crucial time through his stated intention to vote against the Chairman at the AGM. Andrew Tinkler has written to the Company's major shareholders and we enclose a copy of his letter in the interests of equality of information for all shareholders.

We were disappointed further that he subsequently wrote to all of the Group's employees which generated even further instability. This followed a significant number of other serious actions in respect of which the Company will be issuing proceedings. His behaviour threatened to destabilise the Company and severely impacted on the ability of the Chief Executive and the management team to manage the business on a day-to-day basis and deliver the agreed strategy.

This was unfair on our employees and against the interests of all of our shareholders. Therefore, so as to bring order back to the Company for the benefit of shareholders, employees and other stakeholders, Stobart Group summarily terminated his employment with immediate effect on 14 June and will today separately launch proceedings in the High Court to seek damages from him for, amongst other matters, breaches of contractual and fiduciary duties.

The Board is deeply saddened that the Company has been obliged to take such action. Andrew Tinkler had contributed greatly to the Group and the Board acknowledges his entrepreneurial flair and transactional skills. However, his behaviour was jeopardising the future success of the Group and the Board would have been derelict in its duties not to have acted decisively to preserve shareholder value. The Board is acutely focused on its duty to act in the best interests of the Company, including for the benefit of all shareholders. We feel Andrew Tinkler has failed in this duty.

## **The current situation**

Andrew Tinkler's letter sets out a version of the Company's recent history with which the Board fundamentally disagrees. I do not intend to respond to this point by point. However, the Board is firmly of the view that Andrew Tinkler's letter does not accurately reflect the course of recent events that led to the matter becoming public or the Board's stance on Group strategy. As set out above and demonstrated by the Ryanair announcement, we have the right team and strategy in place to continue to deliver significant value to you as shareholders.

The current Non-Executive team was established at the request of shareholders to bring order to the Company's governance which had been riven with related party transactions and board changes. Harnessing an entrepreneurial spirit is never easy but much, until recent events, had been achieved and the transition towards a more stable professional management team was well underway.

As part of this transition, the Board had even agreed to the request from Andrew Tinkler to step down as Chief Executive but to retain a part-time role as Executive Director and bring his entrepreneurial skills to the benefit of the Group through the establishment of Stobart Capital, an advisory entity outside the Group which would offer investment opportunities back to the Group. Unfortunately, Andrew Tinkler is in dispute with the co-founder of that business and Stobart Capital has not generated any significant transactions for the Group.

Shareholders should be aware that the Board has been forced to face a number of challenges posed by Andrew Tinkler, particularly in the recent past:

- settlement of contractual issues arising from a previous related party transaction when Andrew Tinkler was Chief Executive and which are now subject to a separate High Court action taken against him by the Company;
- a proposed selective buy-back of part of his stake in the Company;
- a proposed additional ex-gratia bonus for him of shares then worth some £8m;
- a proposed buy-out of the Company when the share price was in the range of 100p to 120p; and
- a proposed related party transaction associated with the recent aborted airline transaction.

Throughout these difficulties, the Board sought to manage such matters privately and had successfully achieved this over many months. However, earlier this year and after he had indicated to the Board that he wished to step down fully from the Board to pursue his own interests, he began agitating amongst certain major shareholders for the Chairman to step down.

This resulted in the delivery by him to the Board of letters supporting his position from two other large shareholders; at this point the Board had no option other than to comply with its obligations as the board of a listed company and announce this to the market on 25 May 2018. Bringing this matter into the public arena was a direct consequence of Andrew Tinkler's actions and is deeply regrettable. On 29 May 2018, the Company issued a further announcement setting out the background to the situation in order that all shareholders were properly informed.

Andrew Tinkler then nominated Philip Day as a Non-Executive Director with the desire that he should also be appointed Chairman. In order that the Nominations Committee could make a recommendation to shareholders in respect of such appointment, the Board has contacted Philip Day to confirm his willingness to stand and to understand his qualifications for the job. From public sources, Philip Day's successful business background appears focused within unlisted companies in the retail sector and he has no experience of chairing a listed public company.

The Nominations Committee will also wish to establish Philip Day's independence from Andrew Tinkler and other major shareholders in order that he is able to ensure, were he to be elected, that the interests of all shareholders are properly protected. Public sources show that he is a near-neighbour in Cumbria of Andrew Tinkler, whose private helicopter business operates Philip Day's helicopter.

In the proposed related party transaction associated with the recent aborted airline deal referred to above, Philip Day was one of the three intended co-investors alongside Andrew Tinkler and Woodford Investment Management (WIM). WIM is one of the two shareholders who are supporting Andrew Tinkler's move to oust the Chairman.

The Board is concerned that Andrew Tinkler and his supporters are seeking to put themselves in a position to take control of the Group against the interests of all shareholders.

Andrew Tinkler has also sought to disparage the Group's pursuit of its agreed strategy which is inconsistent with the facts; he and Warwick Brady designed the strategy which was endorsed by the whole Board including him.

The execution of the strategy for the two key operating units has now passed from him to dedicated professional divisional management under the leadership of Warwick Brady. The recent Ryanair announcement provides further evidence of the successful execution of this strategy after many years of failing to secure further airline interest at London Southend Airport under his leadership.

The Board and its brokers will work constructively with all shareholders going forward in order to develop the Company's share register to contain additional long-term shareholders who are excited by the value creation opportunity that the Company represents. It has already been contacted by one such party interested in making a significant investment in the Company and it would look to take this and similar ideas forward with existing shareholders, including Andrew Tinkler, in due course.

### **Re-election of Iain Ferguson**

We are therefore urging all shareholders to support the re-election of Iain Ferguson at the AGM on 6 July because we believe anything else would:

- Dilute the robustness and the diversity of opinion on the Board, which contains strong, varied expertise drawn from experience working with leading public and private companies;
- Significantly impact the Group's planned growth strategy and its ability to optimise shareholder returns; and
- Create instability. The Board had worked together effectively to provide a strong basis for growth, which is reflected in the Company's successful performance over the last five years. During Iain Ferguson's chairmanship both Andrew Tinkler and Warwick Brady have benefitted from a stable platform that has allowed the Company to deliver a total shareholder return of 185% in the three years to 28 February 2018 and provide £74.1m to shareholders through dividends and buy-backs in the financial year ended 28 February 2018.

In contrast, supporting our Chairman would:

- Avoid significant Board resignations, both Executive and Non-Executive;
- Remove the risk of further operational management destabilisation and distraction, allowing us to focus on delivering our agreed strategy;
- Allow us maintain the highest standards of corporate governance to ensure the interests of all shareholders are protected;
- Reduce the risk to shareholder value; and
- Avoid sponsor and independent broker resignation.

### **Conclusion**

In summary, Stobart Group needs to allow the current professional management team to implement its strategy to double the value of the business by 2022 for the benefit of all shareholders.

The management team can only operate effectively within a stable framework of strong corporate governance focused on protecting the interests of all shareholders. That is why it is vital that shareholders support Iain Ferguson in the upcoming AGM.

Yours faithfully,

**Andrew Wood**

Senior Independent Director, Stobart Group Limited

## APPENDIX

# LETTER FROM ANDREW TINKLER, EXECUTIVE DIRECTOR AND SHAREHOLDER OF STOBART GROUP LIMITED

8th June 2018

**Dear Shareholder**

### **Stobart Group Limited (the “Company”): Annual General Meeting convened for 6 July 2018 (the “AGM”)**

I am writing to you in my capacity as an Executive Director, significant shareholder and founder of the Company. I have been horrified, as I am sure you have been, as an investor in the Company, by recent announcements issued and action taken in the name of the Company, and by the public mud-slinging in which some of my fellow directors have seen fit to engage without any regard for the waste of the Company’s resources involved or the impact on employees, customers and suppliers. I believe change is required, and that the Company needs a new Chairman to help bring that about. I am therefore writing to you to urge you to cast your vote at the AGM **against** the re-election of Mr Iain Ferguson, the Company’s current Chairman, as a director of the Company.

I would also urge you to vote **for** the election of Mr Philip Day as a director of the Company, as and when that resolution is put to shareholders. I had asked for that resolution to be put to you so that you could vote on it at the AGM, but Mr Ferguson and others on the board chose to deprive you of the opportunity to do so, and instead to defer the consideration of the resolution to appoint Mr Day as a director, and prospectively as Chairman of the Company, until some time after the AGM, notwithstanding the extra costs which the Company will incur in convening a separate general meeting for this purpose and the uncertainty this will create.

I do not propose to go through the entire history of the matter in this letter. However, my concerns date back to last year and reached a critical point in early 2018 when I became aware that Mr Ferguson, without any discussion or consultation with shareholders, was attempting to remove me from the Board.

It is clear that there is a fundamental disagreement amongst the directors of the Company over the implementation of the future strategy of the Stobart Group. My objective in all my dealings has been to ensure that the Company pursues the agreed strategy and does not deviate from this, as pursuing the agreed strategy will deliver the best returns for shareholders. That strategy is best executed and underpinned by strong corporate governance, which has been sadly lacking of late, and that is why, in my view and that of a number of other significant shareholders, it is in the best interests of the Company that Mr Ferguson should not be re-elected as a director, and that Mr Day should be appointed as a director and should take Mr Ferguson’s place as Chairman of the Company.

Philip Day is a well-known and highly successful businessman. I believe he will provide strong leadership and stability to the Company, and help drive forward the Company’s strategy. Philip will form a relevant, independent and robust board of directors which is more appropriate for the future development of Stobart Group and with the skill set to deliver future strategy.

### **Recent announcements issued**

Prior to the convening of the AGM, and in an effort to resolve matters privately, I and a number of other significant shareholders approached Mr Ferguson and indicated to him that, in our view, it was in the best interests of the Company that he should step down as a director and as Chairman of the Company at the AGM. Mr Ferguson resisted any suggestion that he should resign and decided, with the support of certain other directors, to make the disagreement public, rather than allowing time for discussions to continue in private and for proper soundings to be taken from the Company’s shareholders. Notwithstanding my efforts to prevent it, the board insisted on releasing an announcement, after the market had closed on the Friday immediately prior to the bank holiday weekend, highlighting the disagreement and stating Mr Ferguson’s intention to put himself forward for re-election at the AGM and the intention of Mr Wood and Mr Coombs to step down if shareholders were to vote against Mr Ferguson’s re-election.

Following the release of that announcement, a further board meeting was called for the afternoon of Monday 28th May (a bank holiday). The stated purpose of that meeting was to establish a committee of the board to deal with certain matters relating to the dispute which had now – quite unnecessarily in my view – been made public. The membership of the committee comprised the Company’s CEO, Warwick Brady, and Mr Coombs and Mr Wood, the two directors who had stated publicly that they would resign from office if Mr Ferguson was not re-elected at the AGM. Both of those directors refused (apparently in accordance with legal advice, given to the members of the committee at the Company’s expense), when challenged, to acknowledge or declare any personal interest in the matters to be considered by the committee. My view is that the establishment of the committee was fatally compromised by that omission, and by the appointment to the committee of two directors who had already taken sides in the dispute. A properly constituted committee would have included only independent directors who had not publicly declared support for Mr Ferguson.

That evening, at about 11.30 pm, I received a draft announcement, which was said to have been approved by the committee and which was to be published at 7.00 am the following morning. The announcement contained statements about me which were defamatory. My solicitors wrote to the directors at 2.30 am that morning pointing out that the statements were defamatory and demanding that the announcement not be released in that form, but, although the release of the announcement was delayed for some hours, and notwithstanding a further letter from my solicitors, the announcement was eventually released, still containing defamatory statements, at 2:41 pm on 29th May.

I do not propose to repeat those statements here. It is enough to say that they are highly selective, partial and misleading, concerning potential and, in only one case, actual transactions, most of which never moved beyond initial discussion stages. The actual events underlying these statements differ very materially from the alleged facts as presented, and these statements tell only a fraction of the truth. I gave the directors ample opportunity to withdraw and apologise for these statements, which they have failed to do. As a consequence, they are the subject of legal proceedings which I have commenced against the directors concerned. Instead of taking the opportunity offered to them to withdraw the statements and apologise before proceedings were issued, the directors claimed that they made these statements in the course of their duties to the Company – as if making defamatory statements were part of a director's duties – and engaged solicitors, seemingly at the Company's cost (or now, it appears, at the cost of the Company's D&O insurers), to defend themselves.

### **My track record**

Many of you will be aware that I have put my heart and soul into this Company. Since acquiring it in 2004, I have built a £1bn diversified Group from a £1m investment. When I became CEO in March 2008, the share price was 130p and when I stepped aside in June 2017, the share price was 296p, a 128% increase, alongside significant dividend returns, for shareholders. It deeply saddens me to see the price fall back 28% to 214p following the release of the two very damaging RNS announcements. I am equally saddened by the impact this disagreement amongst the directors is having on the Company's operational management. It has come to my attention that over 80% of the Executive Leadership Team are in favour of Mr Ferguson stepping down and being replaced as chairman by Philip Day.

### **Voting for a new Chairman**

I strongly disagree with the arguments put forward which suggest that a vote against Mr Ferguson's re-election presents any sort of risk to the Company and the implementation of its strategy. It is my view, and the view of a number of other major shareholders, that the opposite is true and that a change of Chairman would help to uphold the agreed company strategy, to stabilise operational management and to deliver the best returns for shareholders. I would therefore urge you to vote **against** the re-election of Iain Ferguson at the AGM and (when the opportunity is allowed to you) **for** the appointment of Philip Day.

Yours truly,

**Andrew Tinkler**



