

## **Midwich Group plc.**

### **Statement of compliance with the QCA Corporate Governance Code**

#### **Chairman's corporate governance statement**

The Board's view continues to be that sound governance is an essential element of a well-run business. To that end, since our IPO in 2016, we have followed the code published by the Quoted Companies Alliance (QCA) as our benchmark for governance matters.

My role as Chairman of the Board remains separate to, and independent of, that of the Chief Executive (Group Managing Director) and we both have clearly defined responsibilities. Details of the responsibilities of all directors along with matters reserved for the Board and terms of reference for all the committees of the Board can be found on the Company's website.

The Board is comprised of three independent non-executive directors (including the Chairman who was independent upon appointment) and two executive directors. The Board is satisfied that it has a suitable balance between independence and knowledge of the business to allow it to discharge its duties and responsibilities effectively.

The post of Company Secretary is presently held by an executive director. The Board considers that the size and nature of the Company means that the two roles can be carried out effectively by the Group Finance Director. The position will be kept under review.

The Board maintains a regular dialogue with Investec, the company's nominated advisor, and obtains other legal and financial advice as necessary to ensure compliance with the AIM Rules and other governance requirements.

We continue to review our approach to governance and how the views of stakeholders are represented in our oversight of the business. To that end, I continue to meet with shareholders as necessary. Feedback on both operational and governance matters from those meetings continues to form part of the Board's agenda.

There were a number of regulatory and government initiatives during 2017 to which the company has responded. These include implementation of the Modern Slavery Act 2015, the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 and the 2016 Finance Act requirement to publish our tax strategy. Information on the policies and, where appropriate, the performance of the Group is available on the Company's website.

Andrew Herbert, Chairman

## **Adoption of the updated QCA Corporate Governance Code**

Upon formation at IPO, the Board of Midwich Group plc (“Midwich” or the “Group” or the “Company”), resolved to establish a strong governance culture using the Quoted Companies Alliance (QCA) code as the basis for its governance framework.

In line with the London Stock Exchange’s recent changes to the AIM rules, requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code, the Board has adopted the updated QCA corporate governance code for Midwich.

This report sets out an overview of how Midwich currently complies with each of the ten principles of the code. Midwich will monitor and report on our compliance with the code annually.

### **Principle 1: Establish a strategy and business model which promote long term value for shareholders**

Midwich has a clearly articulated strategy and business plan as a value-added distributor of Audio-Visual and related products.

The business model is predicated on strong long-term relationships with high-end brand manufacturers, offering value-added service to trade-only customers. The Group’s growth strategy incorporates strong organic growth, including market share gains, along with expansion through acquisition in new geographies and in new market areas.

Full disclosure of our strategy and business model can be found in the Annual Report and our Admission Document, both available on the Company’s website.

### **Principle 2: Seek to understand and meet shareholder needs and expectations**

The Company engages with its shareholders through formal meetings, informal communications and through stock exchange announcements.

Management (typically the Group Managing Director and Group Finance Director) meet formally with institutional shareholders, usually after the interim and full year results announcements, presenting Company results, articulating strategy and updating shareholders on progress.

In addition, the Chairman meets separately with institutional shareholders to discuss matters pertaining to business performance and governance and receive shareholder feedback on any issues or concerns.

Trading and other statements are made via the stock exchange during the year and the company holds its Annual General Meeting (AGM), at which, all shareholders can attend and speak with management.

Shareholders also communicate with the Company via email and by telephone and we respond to their specific questions and inputs as required. Company contact details are included in all announcements and are available on the Company website.

### **Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success**

The Board considers relationships with, and the engagement of, our stakeholders to be a critical success factor for our business. As a specialist distributor, we add value by developing and maintaining in depth understanding of our vendors’ and customers’ needs.

Vendor relationships are managed across all levels of the organisation with regular communication on both strategic matters and day-to-day engagement. Midwich prides itself

on the longevity of many of these relationships and the key position it holds in the commercial operation of its vendors. The Board maintains an overview of vendor relationships through regular reporting and presentation from management.

Midwich operates a strictly business-to-business model so our customers are also a value-adding part of the supply chain. We have a dedicated sales and support organisation with responsibility for both day-to-day and more strategic communication. We receive regular feedback through all these channels on customer needs, our performance, product performance and satisfaction of the ultimate end-user.

Customer feedback informs our decisions on the product portfolio and helps us to engage effectively with vendors; suggesting product enhancements and reporting on performance issues. Customer feedback also informs our decisions on support and how we organise resources to provide an effective and efficient service. Matters pertaining to customers and the internal support organisation are reported to the Board regularly.

We have been recognised by both our vendors and reseller customers at the most prestigious award ceremonies within our industry. For example, we have been awarded Distributor of the Year at the AV Awards for the last two years.

Members of our Board are invited to attend our annual flagship event, Technology Exposed. The event allows Members of the Board to view new products and technologies from our vendors and provides an opportunity to meet reseller customers.

Our employees are a key ingredient to the success of our value-add strategy. Knowledge, skills and experience are vital to ensure both vendor and customer satisfaction and, therefore, staff recruitment, retention and reward are critical.

We hold regular open communication sessions with staff at all levels via management briefings and 'town hall' meetings in all locations. Staff surveys are conducted periodically, and staff members have individual annual appraisals. The Board receives regular reports from the Group Head of Human Resources on staff matters including the results and action plans from our staff surveys.

We have been recognised as a great company to work for and this was further supported by our recent win of the Computer Reseller News (CRN) Sales and Marketing Awards 'Best Company to Work For' – a highly coveted award in a competitive distribution sector.

Midwich is a significant employer in Diss, UK and has operations in a range of other locations and countries. We are committed to supporting and sponsoring events in the local community and contributing to charitable and other good causes.

We are conscious of our broader environmental responsibilities and maintain a range of initiatives including but not limited to:

- **Reduce waste and recycle** – We use a dry mixed recycling process at all UK sites. Employees are further encouraged to ensure this is supported by ensuring their waste is disposed of in the appropriate waste bins.
- **Fleet and hire cars** - Within our company vehicle fleet, we look to source replacement vehicles with lower levels of CO2 emissions than the previous vehicle and we are happy to work with staff to introduce hybrid or electric vehicles where possible and reasonably practicable. Petrol vehicles now account for 50% of all car hires, with a continued gradual shift from diesel powered vehicles.
- **Electricity** - All electricity supplies are monitored and where possible we reduce consumption by changing to greener products such as LED lighting and VRF air conditioning and heating. Our heating controls are set for the most economical use and we do not use gas or oil heating where at all possible.
- **Use of Technology** – All staff are encouraged to use video conferencing facilities where possible to reduce mileage and car usage.

- **Buildings** – Where building works are required, we specify and work to the latest insulation requirements. For any new builds, we will always look to introduce efficiency by way of the use of solar panels for example.

**Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation**

The Board has ultimate responsibility for the Group's system of internal controls and for reviewing its effectiveness. However, any such system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group.

The Group operates a risk assessment and monitoring process with regular updates provided to the Board and the Audit Committee.

Accounting and financial control risk

The Group seeks to operate consistent accounting policies and control procedures across its subsidiary operations, including newly acquired entities, and relies upon local management to ensure those policies and procedures are followed. This is managed and reviewed by the central finance team. The Group also relies on third party reviews and audits to ensure compliance with local financial regulations, for example, VAT compliance in overseas subsidiaries.

The Group uses a structured performance management process which includes strategic planning, annual budgets, monthly performance reviews, daily KPI reporting and regular forecast updates. Areas covered by this process include revenue, profit, working capital, cash flow and capital investment. The Board approves the strategy and the budget on an annual basis and receives regular performance updates throughout the year.

The Group also has opportunities to grow through adopting new brands or products or through acquisition. The Board maintains an overview of opportunities identified and management provides regular updates monitoring progress in their delivery. We have built, and continue to develop, a number of processes to assess and integrate acquisitions. These processes range from standard legal and due diligence templates to structured on-boarding and integration post acquisition. All acquisitions are approved by the Board.

Operational controls

The principal elements of the Group's internal controls include:

- Management structure
- Financial monitoring
- Risk register
- Approval limits
- Internal policies, codes of conduct and training
- Health and safety
- IT controls

The Audit Committee receives feedback on the effectiveness of internal controls from executive management and correlates that with separate reports from the external audit process.

**Principle 5: Maintain the board as a well-functioning, balanced team led by the Chair**

The Board is comprised of three independent non-executive directors (including the Chairman who was independent upon appointment) and two executive directors. The non-executive directors have service agreements with three months' notice either side and are required to be available to attend board meetings and to deal with both regular and ad hoc matters. An

indicative time commitment is twenty days per annum, but letters of appointment indicate that this is an estimate and that directors are expected to commit sufficient time to fully discharge their responsibilities. All non-executive directors have confirmed and demonstrated that they have adequate time available to meet the requirements of the role and they have no conflicts.

Executive directors work full time in the business and have no other significant outside business commitments. Executive directors hold service contracts with a nine-month notice period. All directors retire and submit themselves for re-election each year at the Company's Annual General Meeting.

The Board is satisfied that it has a suitable balance between independence and knowledge of the business to allow it to discharge its duties and responsibilities effectively.

**Principle 6: Ensure that between them the directors have necessary up-to-date experience, skills and capabilities.**

The Board is satisfied that, between the directors, it has an effective balance of skills and experience. For example, specialist AV industry knowledge and broad experience in sales, operations, international expansion, finance, human resources, information technology and capital markets.

Each Board member brings a different mix of capabilities, which blend well into a successful and effective team. Board composition is kept under review and the Board is committed to ensuring diversity of skill, experience and gender balance.

Biographies for each Board member are published both on the Company's website and in the Annual Report.

Board members maintain their skillsets through practice in day-to-day roles, enhanced with attending specific training where required. This is a combination of in-house company arranged briefings and external courses.

The Board uses external advisors where necessary to enhance knowledge or to gain access to particular skills or capabilities. Accountants and lawyers are used for diligence work on certain acquisitions; both nomination and remuneration committees use recruitment and employment consultants and specialist advisors have been used by the Board to ensure compliance in specific areas. A recent example of this is the response to the requirements of GDPR.

**Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement**

The Board introduced a formal evaluation and appraisal process in 2017. A survey was developed in-house seeking the individual views of directors on Board composition and effectiveness, business leadership, QCA code compliance and other matters.

The Group Head of Human Resources compiled results and subsequently facilitated a Board discussion during which matters arising were reviewed and actions agreed. There were no major issues or concerns raised about the effectiveness of the Board or its individual members. The principal matter arising was agreement that, assuming the business continued to grow and develop, it would be appropriate to appoint a third independent non-executive director with complementary skills to those of existing Board members, in particular, in respect of organisational capability development as the Group grows. This resulted in the appointment of Hilary Wright in March 2018.

The evaluation process has been repeated in 2018 utilising the same approach, with no material concerns identified and the minor points raised are being acted upon.

The Board will continue to monitor its approach to the evaluation of effectiveness including the use from time to time of external facilitation.

## **Principle 8: Promote a corporate culture that is based on ethical values and behaviours**

The Board is committed to promoting a strong ethical and values driven culture throughout the organisation. We have developed and constantly communicate a set of values that we consider important to success. These values are summarised under the following headings:

- Giving our best
- Empathy and respect
- Cooperation and engagement
- Continuous improvement
- Trustworthiness
- Open communication
- Fairness

The nature of our business, as a value-adding distributor, means expertise and people skills are at the core of what we do and how we maintain competitive advantage. Having a people-oriented ethos, where team work and commitment are recognised, is central to the success of our strategy. We pride ourselves on our home-grown talent, with a significant number of our senior managers having built their careers within the Group.

We understand that people need to enjoy what they do, we recognise those who demonstrate our values both informally and through recognition schemes.

Where concerns are identified, we have formal processes in place to investigate and address any areas where we consider individuals have not acted in an appropriate manner.

To promote our ethical values, we actively encourage and support community involvement, for example in the UK, partnerships with local charities rotated on a 2-year cycle (as voted for by the staff), sponsorship of local events i.e. Diss Cyclathon and working with vendors to support charity events such as Brother UK and the Hadrian's Wall challenge. In addition, we partner with local schools to offer a comprehensive work experience programme annually, further developing student's skills sets, knowledge and confidence.

## **Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision making by the Board**

The Board typically meets eight times per annum. There were eight meetings in 2017, each one attended by all Board directors. Further meetings are held by telephone as necessary.

A formal Board programme is agreed before the start of each financial year. This is structured, as far as possible, to align with the Group's annual financial programme. A full pack of papers is made available to all Board members in advance of scheduled meetings, covering both operational and strategic matters. In addition, the Board receives presentations from operational management.

During the year the Chairman also arranges calls and face to face meetings of the non-executive directors. These provide an informal opportunity to align views and determine areas of focus at future Board meetings

The Board is responsible for the long-term performance of the Group. Specific matters are reserved for the Board. These are set out on the Company's website and include: Group strategy, corporate and capital structures, approval of key financial matters (annual and interim results, budgets, dividend policy), material contracts and Board membership and remuneration.

The Board is supported by the Audit, Nomination and Remuneration committees. The membership and main roles of each committee are included in the Annual Report and the Company's website. Each committee has access to the resources, information and advice

that it deems necessary, at the cost of the Group, to enable the committee to discharge its duties.

The Board is committed to a process of continuous improvement in its governance approach and aims to enhance and develop compliance with best practice. A recent example of this was the decision to increase the number of independent non-executive director board members.

In 2018 the nominations committee has been actively engaged in the appointment of two new main Board directors. Recruitment consultants Korn Ferry supported the appointment of Stephen Lamb as Group Finance Director to replace Anthony Bailey. Hilary Wright was appointed as a non-executive director after an internally managed candidate identification, review and selection process.

An executive director undertakes the role of Company Secretary. The Board believes that, at this present time, the two roles can be combined effectively. This matter remains under review.

**Principle 10: Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.**

The Group communicates with shareholders through the Annual Report and Accounts, half yearly trading updates, the AGM, capital markets days and one-to-one meetings with certain existing or potential new shareholders.

Reports from both the Audit and Remuneration Committees are set out within the Annual Report.

The Company's website includes the outcomes of shareholder votes cast at the AGM and historic annual accounts and AGM notices (since the Group's admission to AIM).

In formally adopting the QCA code (as revised April 2018) as its governance framework, the Board has reviewed all aspects of compliance and has taken action to improve disclosures on its website.

As a result of reviewing the disclosure requirements of AR 26 (as revised), the Board has confirmed that it meets and complies with all the requirements of the QCA code as disclosed herein.

11<sup>th</sup> September 2018