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Clock is running to reactivate performance in conjunction with growth aspirations

Company/ASX Code	Accent Group Limited/AX1
AGM date	Friday 11 November 2022
Time and location	10am (AEDT) Company's Office – 2/64 Balmain Street, Cremorne Vic 3121 or on-line
Registry	Computershare
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Chris Lobb
Pre AGM-Meeting?	Yes – Chairman, David Gordon – Remuneration and Board renewal and with CFO, Matthew Durbin – financial outcomes in FY22

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Summary of key issues for this AGM

- Financial performance for FY22 and update on current year trading
- Re-election of directors and status of Board renewal
- Remuneration structure and alignment with retail shareholder outcomes
- Appropriateness of proposed variations to previously issued Long Term Incentive Performance Rights
- Renewal of Performance Rights Plan

Proposed Voting Summary

No.	Resolution description	
2	Adoption of Remuneration Report	Against
3a	Re-election of Mr David Gordon as Director	Undecided
3b	Re-election of Mr Stephen Goddard as Director	For
4	Variations to FY18-FY22 (Tranche 2) and FY20-FY22 (Tranche 3) Performance Rights	Against
5	Approval of Performance Rights Plan	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

ASA commenced monitoring this Company in 2020, noting that it had obtained a second strike on its Remuneration Report in 2020. We observe the following:

Governance and culture

Following the call from shareholders and their advisers for improved disclosure on remuneration practices the Company responded, resulting in its 2021 Remuneration Report being strongly supported. However, ASA are now looking for further Board actions to demonstrate a renewed alignment with its significant retail shareholder base. This year's financial results and subsequent reduction in the share price has resulted in shareholders experiencing both a material reduction in income and capital. The Board has set Management the task of reversing these results in YE23.

The Company, with its significant workforce of over 6,500 employees (March 2022), is a key employer and the introduction of its first independent sustainability report, is recognition of the criticality of this area to all stakeholders going forward. Areas covered in this initial report include health and safety, diversity and inclusion, training and development, ethical sourcing, data security and actions undertaken or underway relating to the environment.

Financial performance including dividends and shareholder returns

Apart from Gross Sales the Company recorded significant downgrades in all financial Key Performance indicators – refer to page 24 of the 2022 Annual Report for further details. The reasons provided for these outcomes, apart from temporary store closures due to Covid, was the heavy discounting of excess inventory held and retaining business as usual cost structures to provide a platform for future growth.

Business Strategy

Notwithstanding the impact of Covid, the Company continued with its growth strategy, with expansion of its various brands and the opening of further shop fronts. Covid has caused an acceleration in its use of on- line platforms to drive sales, resulting in significant increases via this method. The sustainable profitability on the current physical store/on-line mix remains to be confirmed to shareholders based on the results in YE22.

Keyboard or senior management changes

The Board and CEO/CFOO have been stable over the preceding 12 months with no changes. Some restructuring of responsibilities and reporting lines have been made following a structural review in March 2022. The Company now has four divisional lines overseen by a Divisional CEO, with internal candidates appointed to each of these roles.

Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m)	31.5	76.9	55.5	53.9	44.0
Share price ($)	1.22	2.76	1.47	1.39	1.65
Dividend (cents)	6.50	11.25	9.25	8.25	6.75
Simple TSR (%)	(53)	95	12	(11)	100
EPS (cents)	5.81	14.21	10.28	10.02	8.23
CEO total remuneration, ($m)	2.6	3.8	3.2	3.2	-

Adoption of Remuneration Report and Approval of proposed variation to previously issued Performance Rights

We see these separate agenda items as being intrinsically linked. We will be voting any undirected proxies against both these items. This is to reflect what we see as a non-alignment with the financial outcomes' shareholders have experienced over FY22 to that being remunerated by the Company to its Key Management Personnel and other senior managers.

In summary we believe the Board was premature in providing significant pay increases in 2021 and using its discretion under the Performance Rights Plan in 2020 to partially vest Performance Rights (subject to continuous service) prior to the completion of the assessment period. The decision to defer the testing of the remaining Performance Rights is also questionable in a year when shareholders have incurred significant losses in capital and income. Whilst the Board highlight the on-going Covid19 related consumer impacts including government mandated store closures were outside the direct control of Management, the same argument can be mounted for any number of risks facing the business. ASA view is that the use of variations of this nature to adjust previously issued Long Term Performance Rights is not an appropriate lever to use in such circumstances. We also note the CEO is currently well remunerated and holds a material number of shares (3.2%) in the Company. The further issue of additional shares as a retention mechanism in his case is therefore questionable.

We do acknowledge that the Board has responded to the disappointing financial outcomes for FY22 by:

- Not granting any fixed remuneration increases to the Board or KMP for the upcoming year.
- Cancelling any STI payment entitlements in FY22 to KMP based on FY22 outcomes.

The Board has noted that if the necessary shareholder approval is not received in relation to Resolution 4 dealing with the variations to Performance Rights, it will consider alternative remuneration arrangements which may include the payment of equivalent cash bonuses to relevant participants. ASA strongly oppose any such payments in the event shareholder approval is not received.

(We provide further detail on remuneration in the attached Appendix).

Re-election of directors

Two existing non-executive directors seek re-election this year.

Item 3a relates to the current Chairman, Mr David Gordon. Mr Gordon meets ASA policy in terms of his personal shareholding in the Company

Mr Gordon was first appointed to the Board in 2006 and was appointed Chairman in 2017. He is also a member of three Board committees, including chairing the Company's People and Remuneration Committee. Under existing ASA policy, this length of director tenure results in him no longer being considered independent. Whilst he and the Board still consider him to be independent, we will seek clarification at the meeting as to when an independent Chair under ASA policy will be appointed. If this is to occur within the next two years, we will support his re-election to ensure an orderly handover, if not we will oppose his re-election.

Item 3b relates to independent non-executive director, Mr Stephen Goddard. Mr Goddard does not meet current ASA policy in terms of his personal shareholding in the Company. (i.e., holding at least one year's worth of base director's fees in company shares). Mr Goddard currently holds 50,000 shares in the Company. Whilst in previous years this was sufficient to align with ASA policy, following an increase in fees and the significant reduction in the current share price that all shareholders have experienced, this holding is now below that required under ASA policy.

He was first appointed to the Board in November 2017. He Chairs the Board's Audit and Risk Committee and is a member of two other Board committees. Whilst he has a busy schedule including other directorships (JB Hi-Fi, GWA Group and Nick Scali) and we encourage him to increase his "skin in the game" by increasing his personal shareholding, if the share price does recover to previous levels, we support his re-election given his experience and skills.

In terms of other Board issues, we are seeking some insights as to the Company's board renewal and succession planning program given the last appointment of an independent director was made in 2017. We are also unclear as to what the Board's Management succession planning entails beyond that a plan has been developed.

We also make the following observations in relation to the Board and its composition:

- Majority of independent directors, notwithstanding length of tenure and resulting independence in relation to certain directors (see page 16 of Annual Report for details).
- A skills matrix has been provided in the 2022 Annual Report (also page 16 of annual report) but is general in nature and does not individually identify or indicate the number of directors that purport to holding the necessary skills described.
- Gender diversity – the Board has set a target of 30% female representation by 30 June 2024 - currently has a single female director (14%). It is confident this target will be met prior to this date.
- Major shareholder (entity associated with non-executive director Brett Blundy) has single representation on the 7 member Board which appears appropriate for its shareholding percentage.

Approval of Performance Rights Plan

The Company is seeking to "reapprove" this Plan. Fundamentally this allows any security issues made under the Plan to be excluded when calculating the number of new securities the Company can issue in any one year, without first obtaining shareholder approval. The Plan was last approved at the 2019 AGM and since that time 17.5 million Performance Rights have been issued. If the Plan is again approved at this meeting, under ASX Listing Rules, it will be valid for another 3 years and a maximum ceiling of 18 million Performance Rights can be issued, for the shareholder approval exemption to continue to apply.

A summary of the Plan Rules is contained in Schedule A of the Explanatory Notes forming part of the Notice of Meeting. Whilst there are some departures from ASA policy in terms of these Plan rules, for example the treatment of current Performance Rights on foot in a "change of control" scenario, overall this plan should encourage alignment of KMP and employees' interests with those of shareholders. This however will only be achieved through setting appropriate performance conditions for the issuance and vesting of Performance Rights over the longer term and the holding of securities in the Company. It is noted this resolution item has no bearing on Item 4 dealing with Variations to Performance Rights beyond retaining the Board's ability to use its discretion in the administration of the Plan as it considers appropriate.

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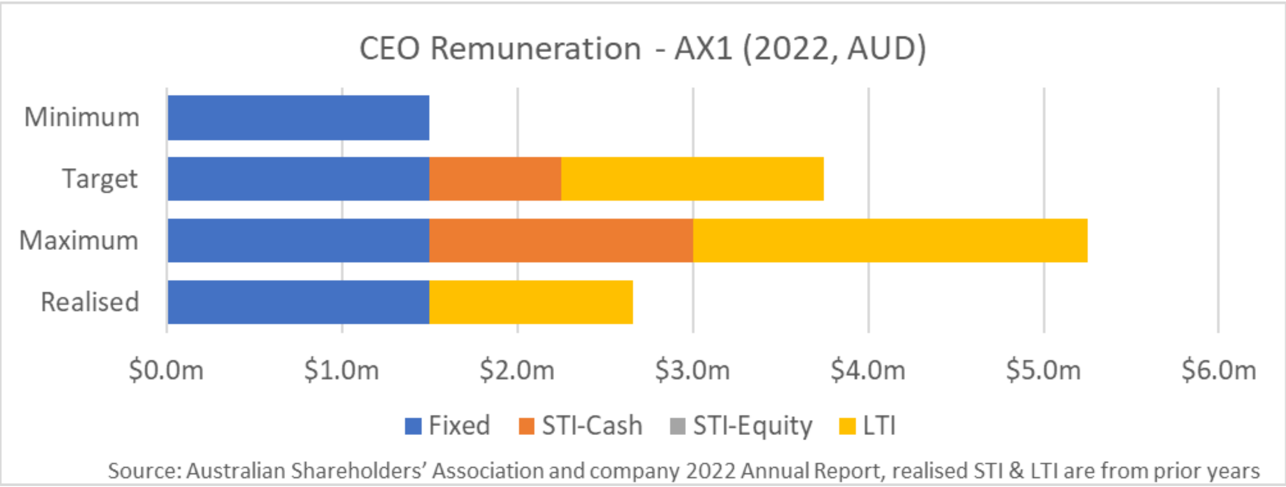
Appendix 1
Remuneration framework detail

CEO rem. Framework for FY22	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.500	33.3%	1.500	29%
STI - Cash	1.500	33.3%	1.500	29%
STI - Equity	-	-	-	=
LTI	1.500	33.3%	2.250	42%
Total	4.500	100.0%	5.250	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Graphically this is shown below for the YE22.



Fixed Remuneration

Following a significant increase to the CEO and CFOO fixed remuneration in 2022 of 17.2% and 18.2% respectively, no increases have been granted to any KMP, including the Board, for the FY23 year.

Short Term Incentives

This component is assessed over the Company's financial year. It is paid in cash. The maximum that can be achieved is 100% of fixed remuneration for the CEO and CFOO. Current weighting is 80% financial and 20% non-financial. Whilst some non-financial targets were met during YE22, the Board determined on the basis of results not achieved on financial targets, not to make any STI cash payments in 2022.

Long Term Incentives

The Company has established a Performance Rights Plan which enables it to ultimately issue ordinary securities to KMP and senior employees on the achievement of objectives set. Targets set for KMP are disclosed in the Annual Report and in the case of the CEO are subject to shareholder approval.

Proposed Variations to Previously Issued Performance Rights

The company has established a Performance Rights Plan (PRP) and actively utilises this to both incentivise executive KMP and senior employees and as a means of retention.

It is firmly of the view that apart from continuing service, the vesting of these Performance Rights should be based on a single measure – the attainment of an Earnings Per Share (EPS) target. It argues that this is easily understood by employees and provides the necessary focus to motivate and incentivise key staff whilst aligning management performance with shareholder value creation over the long term (refer page 20 of the Annual Report).

This particular resolution relates to the Board exercising its permitted discretion under the Company's Performance Rights Plan (PRP). The proposed amendments are to vesting and exercise conditions attached to Performance Rights issued by the Company to KMP and employees in December 2017 (Tranche 2) and November 2019 (Tranche 3). In total there are 21.2 million Performance Rights affected, which equates to 3.9% of shares currently on issue.

The background to this issue is that the Company disclosed in its 2020 Remuneration Report that following the uncertainty caused by the onset of the Covid 19 pandemic, it had exercised its discretion under the PRP and deemed that 50% of Tranche 2 Performance Rights had satisfied the performance condition based on the EPS achieved to 30 June 2020 and management accounts for the calendar year to 31 December 2020. For these particular Performance Rights to vest, the remaining condition was continuous service at the time of the release of the 2022 annual results. At the same time, it disclosed the remaining 50% were to be subject to satisfaction of the EPS condition over the total testing periods ending 30 June 2022, in addition to continuous service.

Having reached the relevant testing period, the Company is now seeking to again utilise its discretion under the PRP, to extend the testing of the EPS for both Tranche 2 and Tranche 3 for a further 12 months i.e., include the year ended 30 June 2023 in the calculation, having adjusted the EPS to reflect this additional year. **The need for this extension being the EPS of 10% could not be satisfied for the period ended 30 June 2022, following a poor financial result for the current year.**

The Company is also seeking to extend the period in which KMP and employees can exercise these particular Performance Rights to 18 months following their vesting.

However, under ASX Listing Rules, to now proceed with these proposed amendments to these previously issued Performance Rights, an ASX waiver of Listing Rule 6.23.3 was required. This rule prohibits amendments to Performance Rights previously issued which (amongst others matters) extends the period these rights can be exercised. The Company received such a waiver in August 2022, subject to shareholder approval being obtained for all changes (as described above) to these particular Performance Rights.

Given the financial outcomes shareholders have derived over the full term of these Performance Rights, we are of the view this approval should not be given and as a result the Performance Rights affected should lapse.

In terms of the overall Remuneration structure, we summarise ASA's position below:

Positives

- Appropriate that fixed remuneration be frozen given FY22 results.
- Majority of short-term-incentives (STIs) are based on quantifiable and disclosed performance metrics and the Board retains a discretion to reduce the award if circumstances warrant it.
- Returned to a pure EBIT when calculating STI outcomes rather than underlying EBIT
- Clear disclosure is provided for all key management personnel (KMP) performance hurdles and the weightings applied for major components i.e., financial – 80% and non-financial 20%.
- No termination payments exceed 12 months fixed pay.

Areas for Improvement

- Currently any STIs are paid 100% in cash. ASA guidelines are that at least 50% of STIs should be paid in equity with a minimum 12 month holding lock.
- No retesting of performance hurdles should be allowed.
- LTI is based on one hurdle (EPS) whereas we believe hurdles should be based on at least two hurdles, one of which is total shareholder return (TSR).
- LTI costs are based on fair value at grant date and may not represent the actual value (if any) of the remuneration received. Actual pay should therefore also be disclosed.
- LTI can pay out even if absolute TSR is negative.

Conclusion on Remuneration

The Company argues that remuneration practices and outcomes delivered should be assessed over the long term – 10 years – and that the company has therefore delivered for shareholders over this time period.

Given the disappointing financial outcomes delivered in FY22, we believe the Company needs to revisit its remuneration structure and practices and adopt additional safeguards to more closely align Management remuneration with shareholder outcomes.