



## A tentative upswing under threat from Covid-19

<b>Company/ASX Code</b>	Coca-Cola Amatil (CCL)
<b>AGM date</b>	Tuesday 26 May 2020
<b>Time and location</b>	10.00am. <b>Online only:</b> <a href="https://agmlive.link/CCL20">https://agmlive.link/CCL20</a> . More detailed information about online participation and voting may be found at <a href="http://www.ccamatil.com/agm">www.ccamatil.com/agm</a>
<b>Registry</b>	Link Market Services
<b>Webcast</b>	Yes: <a href="http://www.ccamatil.com/agm">www.ccamatil.com/agm</a>
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Roger Ashley assisted by Gary Barton
<b>Pre AGM Meeting?</b>	Yes, with Chairman Ilana Atlas and Director John Borghetti

### ASA WILL BE VOTING PROXIES AND ASKING QUESTIONS IN THE NORMAL MATTER ONLINE.

*An individual (or his associates) involved in the preparation of this voting intention has a shareholding in this company.*

<b>Item 1</b>	<b>Annual Reports</b>
<b>ASA Vote</b>	No vote required

### Summary of ASA Position

A “Market Update and COVID-19 Response” presentation was held online on 17 April 2020. The key points were that the company is in a strong financial position with stress testing showing that it should be able to ride out the economic impact of the virus, that trading results held up for the first quarter of 2020 although initial April results show a sharp decline year on year and that exposure to potential bad debts is tolerable. A further update will be given at the AGM.

Finances are robust with (at 31 March) net debt at \$1.3bn offset by cash on deposit of \$0.9bn. Undrawn bank facilities amount to \$500m and a \$200m private placement of notes was made in April 2020 and a further \$150m is planned. These measures are in an environment where a positive cash flow is anticipated buoyed by a capital expenditure reduction of \$100m, \$140m in operating costs and a possible dividend reduction.

There was a “low single digit” decline in EBIT in the first quarter of 2020 but a volume decline of some 30% in the first two weeks of April predominantly in Indonesia but reflecting the impact of the lockdown in all major markets. In Australia volume growth in grocery has been more than offset by those (higher margin) outlets such as cafes and entertainment venues that have been closed by government regulation. These latter outlets comprise some 10% of trade debts meaning

exposure to potential bad debts should be less than \$50m while sales to small traders in Indonesia are on a cash on delivery basis.

### **Financial performance**

On the face of it, things were looking up at Coca Cola Amatil (at least until COVID-19 struck).

With the troubled SPC operation out of the way, statutory revenue from ongoing operations rose by 7% year on year while EBIT fell by 3%. Net Profit After Tax increased by 34% although after adjusting for the impact of discontinued operations, NPAT showed a small decline year on year.

In the itemised business segments, New Zealand/Fiji and Alcohol & Coffee showed good growth with a marked improvement in the Indonesian operations although the market environment in Indonesia is described as “soft” and the company’s auditors listed a possible impairment charge as a “Key Audit Matter”. It remains to be seen whether the Indonesian operations are yet positioned for sustained growth.

Encouraging as these results are, the “Australian Beverages” segment remains key to the company’s results, accounting for 58% of total company segment income in 2019. A 2.4% increase in revenue in this segment year on year translated into a 1.9% decrease in EBIT. It appears that the cost of increased salesforce numbers has had a positive effect on sales volume but not enough to have a significant positive profit impact. This, we were told, was a function of timing.

CEO Alison Watkins has noted that volumes in the Australian Beverages segment were on an upward trajectory in the second half of 2019 and she believes that this trend can be sustained in 2020 (subject to COVID-19).

We have some concerns that the company’s debt to equity ratio is at the high end of the industry sector and the market, it will not be improved by further borrowings nor by a high, and possibly unsustainable, dividend payout ratio of 90% of profits.

### **Key events**

The underperforming SPC operations were sold during the year.

### **Senior Management Changes**

The Executive Team was reduced by the departures of the Managing Director of Alcohol & Coffee, the Director of Group Public Affairs and the Group Director of Partners and Growth. ASA questioned the logic and timing of subsuming the growing business of Alcohol & Coffee into the bigger geographical based operations and were told that on balance there were synergies to be had that would outweigh any possible diminution of focus on this business.

### **ASA focus issue**

We approve the company’s commitment to gender diversity and sustainability and would repeat our suggestion that Board policy be brought in line with ASA’s policy by requiring each director to hold shares to the value of one year’s Board fees after three years, rather than five. We were told that this change was under consideration but was difficult to implement in the current climate of share price volatility.

## Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	390.0	292.0	461.0	257.3	393.4
UPAT (\$m)	393.9	388.3	416.2	417.9	393.4
Share price (\$)	11.06	8.19	8.51	10.12	9.30
Dividend (cents)	51.0	47.0	47.0	46.0	43.5
TSR (%)	35.7	(3.2)	(11.3)	13.8	4.5
EPS (cents)	51.7	38.5	59.8	32.2	51.5
CEO total remuneration, actual (\$m)	4.9	3.0	4.2	3.6	3.4

For 2019, the CEO's total actual remuneration was **54.9 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2019 data from the Australian Bureau of Statistics).

<b>Item 2</b>	<b>Adoption of FY19 Remuneration Report</b>
<b>ASA Vote</b>	For

## CEO Remuneration Structure

	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.200	39%	2.200	26%
STI - Cash	1.050	18%	1.575	19%
STI - Equity	0.700	12%	1.050	13%
LTI	1.750	31%	3.500	42%
Total	5.700	100.0%	8.325	100%

## **Summary of ASA Position**

Last year we voted against Ms. Watkins' participation in the 2019-21 Long-Term Incentive Plan because the Earnings per Share component had been removed. We are pleased to see this has been reinstated to equally share with the measures of Absolute and Relative Shareholder Return but we reiterate that the term of the Long Term Incentive Plan (LTI) is three years, rather than the four years and above that we believe is better attuned to the interests of shareholders. We also note that, both short-term and long-term incentives, will be based on "ongoing" profits and

earnings rather than statutory results. We would expect any adjustments to statutory results to be justifiable and, as stated in the Annual Report, to be disclosed to shareholders.

We were told that the 2020-21 LTI hurdles are not being reviewed and will not be subject to retesting despite any impact that COVID-19 may have on results although it would not be unreasonable to see the company's Relative Shareholder Return (ie. as compared to a wide-ranging cohort of ASX 100 companies) result in a favourable outcome.

We are concerned that the Short-Term Incentive Plan (STI) offers a maximum payout for the CEO which can be as high as 122% of fixed remuneration but note that the components of the STI have been further quantified in the Annual Report.

<b>Item 3a</b>	<b>Re-election of Krishnakumar Thirumalai as a Director</b>
<b>ASA Vote</b>	For

#### **Summary of ASA Position**

Mr Thirumalai is the President of Coca-Cola India and South-West Asia and represents The Coca Cola Company on the board.

<b>Item 3b</b>	<b>Re-election of Paul Dominic O'Sullivan as a Director</b>
<b>ASA Vote</b>	For

#### **Summary of ASA Position**

Mr. O'Sullivan was appointed to the Board in 2017 and is a director of ANZ Bank and Chairman of Singtel Optus and Western Sydney Airport Corporation.

Mr O'Sullivan is the chair of the Investment Committee and serves on the Audit & Finance Committee and the People and Related Party Committee.

There is no known reason not to support Mr. O'Sullivan's re-election.

<b>Item 3c</b>	<b>Election of Penelope Ann Winn as a Director</b>
<b>ASA Vote</b>	For

#### **Summary of ASA Position**

Ms. Winn was appointed to the Board in 2019 and is a director of Caltex Australia, CSR and Goodman Limited.

Ms. Winn is a member of the Risk & Sustainability Committee and the Related Party Committee.

We have concerns that Ms. Winn's workload may be excessive to the point of compromising her duties as a Director. She is on four other boards, plus four other community and government organisations. We will question Ms. Wynn on this issue.

<b>Item 4</b>	<b>Participation of Executive Director in the 2020-2022 Long-Term Incentive Plan</b>
<b>ASA Vote</b>	For

### Summary of ASA Position

The CEO's LTI grant for 2020-22 is 311,388 shares at maximum opportunity. This represents a target award of \$3.5million based on a VWAP of \$11.24 per share (actual value) for 30 days to 31 December 2019.

The LTI hurdles comprise equal components of an Absolute Shareholder Return, a Relative Shareholder Return and Earnings per Share growth.

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