Australian Shareholders' Association

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Voting Intentions – Coles Group 2021 AGM

ASX Code	COL
Meeting Time/Date	Wednesday 10th Nov, 10:30am
Type of Meeting	Virtual at https://web.lumiagm.com398125821
Monitor	Stewart Burn assisted by Chris Lobb
Pre-AGM Meeting?	Yes with Chair James Graham and Richard Freudenstein, Chair of people and culture.

Proposed Voting Summary

2.1	Re-election of Abi Cleland as a Director	For
2.2	Re-election of Richard Freudenstein as a Director	Undecided
3	Adoption of Remuneration Report	For
4	Approval of STI grant to CEO/Managing Director Steven Cain	For
5	Approval of LTI performance rights CEO/Managing Director Steven Cain	For
6	Renewal of proportional takeover provisions in Constitution	For

Key Financials

	2021	**2020**	**2019**
Statutory NPAT ($m)	1,005	978	1,434
Underlying NPAT ($m)	999	951	1,078
Statutory EPS (cents)	75.3	73.3	80.8
Dividend per Share (cents)	61.0	57.5	35.5
Share Price at End of FY ($)	16.83	17.15	13.35
Statutory CEO Remuneration ($)	4.25	4.85	5.4
Total Shareholder Return (%)	1.7	31	6.9

Statutory NPAT and EPS are the audited figure from the financial accounts. Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company.

Summary of ASA Position

This is the Second full year that Coles Group has reported, following its spin-off from Wesfarmers and the ASA has no major historical issues with them.

All seven NEDs have line management experience in areas related to Coles with the CEO Steven Cain now having been in his position for 2 years. Coles has developed a strong governance culture as set out in their report and are developing new distribution centres in Qld and NSW (with Witron) and new customer fulfilment centres in Victoria and NSW (with Ocado).

Coles continues to support indigenous communities, community support, Secondbite (for which provided the equivalent of 151m meals) and FoodBank (providing the equivalent of 34m meals).

Associated with the pandemic and especially in lock-down States, Victoria and New South Wales, customers are indicating their preference for local shopping rather than at major shopping centres. Online sales have also jumped more than 52% to $2.1bn and now represent 5.5% of total sales. Coles Group see online sales as being an integral part of their future.

We do note that a new non-executive director (Paul O'Malley) elected at the last AGM, still has a shareholding below that recommended by the ASA, but this is early into his directorship.

Item 2.1	Election of Abi Cleland as a Director
ASA Vote	For

Summary of ASA Position

Ms Cleland joined the board in November 2018 and was elected by shareholders in November 2018. She has a background in strategy, mergers and acquisitions, digital and business growth, having had roles in retail, agriculture and financial services. Currently, she is a member of both the Nomination and People and Culture committees.

Ms Cleland is currently serving as a non-executive director on three other listed companies, Orora Limited (ORA), Sydney Airport Limited (SYD) and Computershare Limited (CPU). We note that she has stepped down from her director position on Swimming Australia with should reduce her workload.

Due to Covid-19, the board met more frequently in FY2021 (14 times) than is typical. Given this, and the possibility that other companies were also competing for her time, such as Computershare which met 18 times, the ASA questioned COL representatives as to whether any workload concerns arose for Ms Cleland. Noting that she attended 14 of 14 meetings. COL representatives stated that she had been readily available and always provided valuable input.

Her level of equity in the company is appropriate, as is her workload and the ASA will support her re-election for another term.

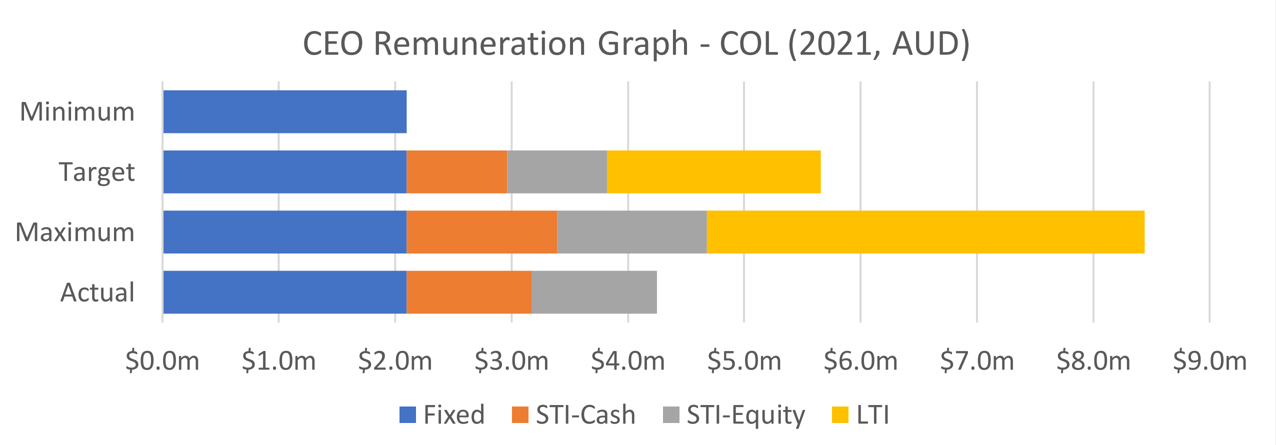
Item 2.2	Re-election of Richard Freudenstein as a Director
ASA Vote	**Undecided**

Summary of ASA Position

Richard Freudenstein was appointed to the board in November 2018. He has a background in media with a career that includes Foxtel, News Ltd, BSB and Ten Network. Currently, he chairs the People and Culture committee and is a member of the Nomination committee. As well as being a director with COL, he is Chairman of Appen (APX) (a company with its's own problems), a director of REA Group (REA), Deputy Chancellor of the University of Sydney, on the advisory board of Afinity and has recently become interim chairman of Cricket Australia, During our meeting with the board Mr Fruedenstein indicated that the positions with Afinity and Cricket Australia involve minimal commitment, however this was before the latest announcement from Cricket Australia. Despite him saying that he is coping well with the workload, the ASA believes that Mr Freudenstein's workload is too high to adequately represent COL shareholders, although we do note that he did attend all meetings that were required of him during the reporting period.

His level of equity in the company is suitable, however; due to his high workload we will raise questions about this at the AGM and make a decision on voting after hearing his public answer.

Item 3	Adoption of Remuneration Report
ASA Vote	**For**



Source: Australian Shareholders' Association and company 2020 Annual Report

Summary of ASA Position

The remuneration report is generally compliant with ASA guidelines. It is however rather difficult to calculate the actual remuneration for the CEO as it only gives clear details on some of the actual remuneration amounts, with items such as the vesting of the long-term incentive (LTI) performance share remuneration difficult to assess. We will continue to raise this issue with Coles. The details given for calculating fixed remuneration and STI for 2021 were clear and reasonable and no large cash payment was provided this year as part of the total fixed compensation (TFC). It is pleasing to see that Coles Group continue to increase the component of the CEO's remuneration that is at risk. According to the Godfrey Remuneration Group (GRG) companies in similar segments and of similar market capitalisation as Coles Group pay its CEO in the vicinity of $5m at the 50th percentile. Mr Cain's total package this year therefore is not excessive and can be justified due to the high performance of Coles Group under difficult circumstances. This will be monitored in future years as the STI and LTI performance shares vest. All NEDs (except for Paul O'Malley) have a shareholding that exceeds one year's fees, although the CEO still does not have a shareholding equal to his remuneration, holding only 50,000 shares at the end of the financial year. Coles Group has a minimum shareholding policy in place (100% of Total fixed compensation or TFC, within 5 years), so we expect this to be addressed in the future.

The CEO STI is split 50:50 cash and deferred equity, with a 2-year holding lock. Target is 80% of TFC, maximum is 120%. Performance is measured against Group earnings before interest and tax (EBIT), Group sales and Group cash realisation. Non-financial measures contribute up to 40% of the STI opportunity for the CEO. For LTIs, the maximum opportunity is 175% of TFC. 50% is subject to a return on capital (ROC) hurdle and 50% to a TSR hurdle. The ROC hurdle is considered commercial in confidence. The TSR hurdle vests 50% at the 50th percentile, with straight line vesting to the 75th percentile, where 100% of shares are vested. Currently the LTI performance shares are vested after 3 years rather than the preferred ASA policy of a minimum of 4 years preferably 5 or more years. This issue has been raised with Coles and in the future we will continue to press for a minimum of 4 years. On balance ASA supports the remuneration report.

Item 4	**Approval of STI grant of performance rights to the MD and CEO**
ASA Vote	**For**

Summary of ASA Position

For 2021 the STIs for executive key management personnel (KMP) were 80% of TFC at target and 120% of TFC at maximum. With 50% of STI to be paid as cash and 50% as shares (64,514 v's 75,866 in 2020) restricted for 2 years. We did question the payment of the STI at the 102% level. The response was that due to the gains Coles Group made from the pandemic, the Group achieved close to the maximum and above stretch for the current financial year. We did observe that Mr Cain's TFC for calculating the STI will remain at $2.1M for the next year. With the additional issues Coles Group faced during the pandemic and the fact that he has delivered on a number of new initiatives, we agreed with the board that he was eligible for the STI as indicated. The ASA supports this resolution.

Item 5	**Approval of long-term incentive grant of performance rights to the MD and CEO**
ASA Vote	**For**

Summary of ASA Position

For 2021 the LTIs for the KMP would be 175% of TFC for the CEO and 150% of TFC for other KMP, with 50% of the LTI subjected to an ROC hurdle and 50% subjected to an TSR hurdle. The ROC component only vests if more than 95% of the of the cumulative ROC targets are met, as these are set by the board, we do not know if they are fair and reasonable and will continue to monitor this in future years. The TSR component begins vesting if Coles Group achieving TSR above the 50th percentile compared to the ASX 100 Comparator Group, 100% being vested when Coles Group performs better than the 75th percentile. The TSR component of the LTI appears reasonable and meets ASA guidelines.

The company proposes to grant 225,976 performance rights to the CEO for his LTI for 2021, compared to 223,133 performance rights granted last year, calculated at the market price on the 30/6/2021 and equal to a value $3,762,500 compared to last year of $3,675,000 and is 1.75 times his fixed remuneration. We still believe that an LTI of $3.762m for 2021 to be overly generous and we will monitor the performance hurdles of the LTI in future years as well as the number of rights that vest. We understand that all Performance Rights that vest will be via the issue of new shares, whereas the ASA policy prefers on-market purchases to reduce dilution of existing shares held by shareholders generally.

On balance, the ASA supports this resolution.

Item 6	Renewal of proportional takeover provisions in Constitution
ASA Vote	**For**

Summary of ASA Position

These proposals are normally non-controversial where a company renews its constitutional provisions which don't allow a predator to only bid for a proportion of a shareholders' interest. We prefer full takeovers so that shareholders are not left with a controlling shareholder and would usually support these resolutions.

Monitor Shareholding

Some of the individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.