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"Transition" continues

Company/ASX Code	Coca-Cola Amatil (CCL)
AGM date	Wednesday 15 May 2019
Time and location	10am, Isabel Menton Theatre, 11 Mount Street, North Sydney
Registry	Link Market Services
Webcast	Yes: www.ccamatil.com/agm
Poll or show of hands	Poll on all items
Monitor	Roger Ashley assisted by Gary Barton
Pre AGM Meeting?	Yes, with Chair Ilana Atlas and Director John Borghetti

Item 1	**Annual Reports**
ASA Vote	No vote required

Summary of ASA Position

<u>Financial performance</u>

Once again the core business of Australian Beverages underperformed with the company referring to 2018 as being a "transition year": a refrain that has been heard before. Sales volume declined 1.3% across sparkling and still beverages albeit with an improved market share. The recurring profit negative impacts of sugar (obesity), product pricing, cost pressures and container deposit schemes are still to the fore. The outcome from a significant increase in sales force numbers in this segment will be of interest in the current year (2019).

Despite investment in the Indonesian market, revenue fell $21m year on year for the Indonesian/PNG business segment, all of which, and more, was attributable to Indonesia. The audit report on the Indonesian business appears to indicate that the case for an impairment charge, following a $US205m write-down by The Coca-Cola Company US (TCCC), is a future possibility although the carrying value of CCL's Indonesian assets are at a lower base than those acquired by TCCC. The November Investor Day presentation appeared to emphasise two main points: the stagnant Indonesian economy including cost pressures brought about by a declining exchange rate and, on the other hand, potential economic growth and a middle class with more disposable income. A case of stick with us and it will all come good. Perhaps.

Unfortunately, Australian Beverages and Indonesia (including PNG which is not shown separately) account for 73% of revenue from continuing operations (2017: 74%) and 73% of EBIT from continuing operations (2017: 74%), a year on year reduction of $38.1m and $42.3 respectively. While the New Zealand/Fiji and Coffee/Alcohol business segments showed growth, they are a long way from making up for the performance of the main businesses.

To add to the pain, the always-troubled SPC business assets were written down to zero, a hit of $122.5m (net of tax and including trading results) on the Income Statement for the year. At least there will be no future impairments for SPC, an improvement on an almost annual event in recent years.

We have some concerns that the company's debt to equity ratio is at the high end of the industry sector and the market and that this will not be improved by a high, and possibly unsustainable, dividend payment. In 2018, dividend payment exceeded the sum of cash from operations and asset purchases.

Key events

The write-down of SPC net assets to zero and the ongoing search for a buyer.

An anticipated (in the media) bid for Japanese company Kirin's sale of its Australian drinks portfolio, including brands such as Pura milk, Big M flavoured milk, Yoplait yoghurt, Berri juice and Farmers Union iced coffee and yoghurt was never formally acknowledged by CCL and will not be pursued by CCL.

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 (ASA was advised that this will be taken under consideration). We note that Julie Ann Coates (appointed in 2018) has yet to acquire any shares in the company.

We questioned why the auditors, E&Y, have not participated in an open tender despite an association well in excess of ten years. The response was that E&Y are the auditors in most of Coca-Cola's US and international operations, allowing for some synergies. We note that the EU and the UK have adopted a requirement that there be mandatory re-tendering after ten years and a maximum tenure of 20 years.

Summary

(As at FYE)	**2018**	**2017**	**2016**	**2015**	**2014**
NPAT ($m)	292.0	461.0	257.3	393.4	272.1
UPAT ($m)	388.3	416.2	417.9	393.4	375.5
Share price ($)	8.19	8.51	10.12	9.30	9.32
Dividend (cents)	47.0	47.0	46.0	43.5	42.0
TSR (%)	(3.2)	(11.3)	13.8	4.5	(19.0)
EPS (cents)	38.5	59.8	32.2	51.5	35.6
CEO total remuneration, actual ($m)	3.0	4.2	3.6	3.4	2.5*

*From date of appointment 3 March 2014 to 31 December 2014

For 2018, the CEO's total actual remuneration was **35.3 times** the Australian Full time Adult Average Weekly Total Earnings (based on [November 2018] data from the Australian Bureau of Statistics).

Item 2	**Adoption of FY18 Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

Last year ASA voted in favour of the remuneration report for the fourth year in a row despite the term of the Long Term Incentive Plan (LTI) being three years, rather than the four years and above that we believe is better attuned to the interests of shareholders. The LTI which comprised three equal components: Earnings per share (EPS), relative total shareholder return (RTSR) (based on the ASX100 index excluding banks and miners), and absolute total shareholder return. Apart from the LTI period, we are reasonably comfortable with the LTI plan as it was up to the end of 2018.

From 2019 however, the LTI will change to eliminate the EPS measure. ASA believes that this is a retrograde step in that the remaining Total Shareholder Return measures could be triggered by purely fortuitous equity market fluctuations.

Our major concern is the design of the Short-Term Incentive (STI) Plan and in particular, the maximum payout for the CEO which can be 122% of fixed remuneration. STI targets are somewhat opaque and we are not convinced that the financial targets represent a meaningful stretch by comparison with budget, the achievement of which is a basic job requirement. There is no financial gateway as a pre-condition for the non-financial hurdles, the maximum STI opportunity exceeds 100% of fixed remuneration and 60% of the award is payable in cash rather than in deferred equity.

STI plan targets generally tend to be somewhat opaque by comparison with the quantifiable targets associated with most LTI plans and this calls into question their alignment with shareholder expectations. CCL is no worse than most in this regard but a greater emphasis on LTI versus STI would, we believe, be in shareholders' interests.

Item 3a	**Re-election of Massimo Borghetti AQ as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Borghetti joined the Board in 2015. Until recently he was CEO of the Virgin Australia Airline Group (which had been a point of contention with ASA in terms of workload). At present Mr Borghetti has no other public company directorships. He is Chair of the People Committee and a member of the Related Party Committee, Risk and Sustainability Committee and Nominations Committee.

Item 3b	**Election of Mark Johnson as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Johnson joined the Board in 2016. He is the Chair of G8 Education and MH Premium Farms. Positions held within CCL include Chairman of the Audit & Risk Committee and a member of the Risk and Sustainability Committee, Related Party Committee and Nominations Committee.

Item 4	**Participation of Executive Director in the 2019-2021 Long-Term Incentive Plan**
ASA Vote	**Against**

Summary of ASA Position

The CEO's LTI grant for 2019-21 is 414,692 shares at maximum opportunity. This represents a target award of $3.5million based on a volume weighted average price (VWAP) of $8.44 per share (actual value) for 30 days to 31 December 2018.

Our decision to vote against this resolution is that the LTI award for 2019-21 has been amended to exclude the EPS measure (see above). We are also concerned by a number of references in the remuneration report to the Board reserving the right to substitute underlying performance measures in lieu of statutory results which are generally more aligned to shareholder returns.

ASA was advised that an EPS measure could be reinstated in future awards but, given that our recent support for CCL's remuneration report has been marginal considering our STI reservations and the LTI term, the axing of the EPS measure has led us to a rejection of the 2019-21 plan.

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