



It was a very good year

Company/ASX Code	Metcash Limited/MTS
AGM date	Wednesday, 1 September 2021
Time and location	2:30pm, online only
Registry	Boardroom Pty Ltd
Webcast	Instructions at https://www.metcash.com/investor-centre/2021-agm/
Poll or show of hands	Poll on all items
Monitor	Don Adams assisted by Gary Barton
Pre AGM Meeting?	Yes, online meeting with Rob Murray, Chair; Helen Nash, NED and Chair of People and Culture Committee; and Steven Ashe, Head of Corporate Affairs & Investor Relations

One individual involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

The meeting will cover the usual matters: a review of the financial report, election or re-election of directors and the remuneration report. In addition, there is a motion to increase the fee pool for non-executive directors.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Metcash had a very good year up to 31 April 2021. Sales were up 10.1% to \$16.4bn and EBIT was up 19.9% to \$401.4m. Food sales increased 11.0% on a like-for-like basis, Liquor sales were up 19.9% and Hardware sales by 24.7%. Obviously COVID was not a problem, as people cooked more at home and DIY also increased substantially. Metcash also feel that the supermarkets that they supply did well since they are local, and since there was migration from the cities to regional areas to some extent.

The strong financial performance meant that Metcash was debt-free at the end of the year. They announced an off-market share buyback of up to \$175m and increased dividends from 12.5 cents to 17.5 cents per share. Total shareholder return was 52% in the year. In late news, Metcash told the ASX that it is buying back \$200m of equity at a discount of 14%.

Metcash also attributes this year's success to the MFuture initiative introduced in 2019. This is a strategic plan to work with the independent stores to enhance revenue and reduce costs. It includes modernising retailers' stores and trialling new formats and ownership models. They have

also embarked on Project Horizon, a major software investment to improve efficiency and the ease of doing business across the group.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	239.0	(56.8)	192.8	(148.2)	171.9
UPAT (\$m)	252.7	198.8	210.3	216.9	194.8
Share price (\$)	3.55	2.49	2.87	3.60	2.15
Dividend (cents)	17.5	12.5	13.5	13	4.5
Simple TSR (%)	52.0	(8.9)	(16.5)	73.5	24.7
EPS (cents)	23.4	(6.2)	20.8	(15.2)	17.9
CEO total remuneration, actual (\$m)	5.25	3.21	3.67	4.12	2.98

For 2021, the CEO's total actual remuneration was **57 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 data from the Australian Bureau of Statistics).

Board, governance, and sustainability

The Board of Metcash is well balanced with six independent directors, with a range of lengths of service and appropriate diversity. The Board Skills Matrix in the Governance Report shows good coverage of required skills and experience but is deficient in that it does not identify which directors have which skills. We comment below on the skills and experience of the directors seeking election. Two new directors were appointed and are seeking election at this meeting. Tonianne Dwyer retired from the Board in late June 2021.

Metcash has appropriate requirements for share ownership for all directors and KMP.

There is a good Sustainability Report included in the Annual Report with several specific targets laid down. They also work with the stores in a cooperative effort to achieve sustainability goals. For example, the National Retail Council (retailer representative group) has adopted a policy of all stores using renewable energy by 2025. There are many other laudable objectives, both in the Sustainability Report and among the customers represented by the National Retail Council.

The Modern Slavery report included in the Sustainability Report shows details of what they are finding in their supply chain, and what further inquiry they are making.

Finally, Metcash reports good diversity among management and staff, and they also report that they have achieved a gender pay gap of about 1%.

COVID

Metcash did not receive any government support in Australia during the crisis, and the small amount of support provided in New Zealand has been repaid. Metcash is part of a program

working with government and other large food businesses to vaccinate workers in distribution centres in NSW. Metcash plan to expand vaccination to its other distribution centres.

Item 2(a)	Election of Christine Holman as a Director
ASA Vote	For

Christine Holman was appointed to the Board in September 2020. She has broad experience and is a non-executive director of Collins Foods Limited and CSR Limited. We have been told that she has recently retired from the Blackmores Limited Board. Ms Holman has a range of other directorships, largely of sporting and charitable bodies.

We have been assured that her workload has been assessed by the Nomination Committee and is felt to not be a problem. The company tells us that Ms Holman's particular skills lie in financial acumen, mergers and acquisitions, digital technologies, and transformations.

We support her election.

Item 2(b)	Election of Margaret Haseltine as a Director
ASA Vote	For

Margaret Haseltine was appointed to the Metcash Board in May 2021. She is a non-executive director and Chair of Bapcor Limited, a non-executive director of the Newcastle Permanent Building Society, and of three other entities. We are told that her particular skills lie in supply chains, logistics and industry expertise.

We support her election.

Item 2	Re-election of Murray Jordan as a Director
ASA Vote	For

Murray Jordan has been a director since February 2016. He has extensive experience in the independent retail sector, having been Managing Director of Foodstuffs North Island Limited, a large wholesaler in New Zealand servicing supermarkets, food service and liquor retailers. He is a director of several New Zealand companies and charities listed in the Notice of Meeting.

His workload is assessed annually by the Nomination Committee, as it is for all non-executive directors. Mr Jordan's retirement was announced by Metcash on 3 May 2021, but he reconsidered and on 27 May the company announced that he would continue as a director.

Because of his experience in the industry, and his international ties, we support his re-election.

Item 3	Adoption of Remuneration Report
ASA Vote	For

As explained in the Appendix the decision to vote for the adoption of the Remuneration Report is marginal for the reasons listed there. The remuneration policy however has some good points, such as the peer group benchmarking, and is largely free of some of the more egregious problems we have seen elsewhere.

Item 4(a) and 4(b)	Approval of grants of performance rights to CEO, Jeffery Adams
ASA Vote	For

This is a standard motion required by ASX Listing Rule 10.14 when the company issues shares to a director. There are two parts to the motion since Metcash deferred last year's award due to the pandemic. The number of the performance rights that will vest as shares depends on the achievement of LTI measures described in the Appendix and in the Notice of Meeting.

The company also awarded the CEO performance rights valued at \$794,351 as part of his STI. We estimate that this would be about 180,000 rights. No shareholder approval is being sought for this issue since the company is using an exemption under ASX Listing Rule 10.16 which permits such an award provided the share are purchased on-market. This is contrary to ASA policy; we prefer that all equity grants be approved by shareholders.

Item 5	Approval of increase in non-executive director aggregate fee pool
ASA Vote	For

The present fee pool for non-executive directors is \$1.6m which was approved in 2012. The actual spend on non-executive director fees in FY2021 was \$1.275m. Metcash is asking for an increase of 25% to \$2.0m. External advisors advised that the actual fees paid range from 81% to 99% of peer benchmarks. The increase seems reasonable for the reasons listed in the Notice of Meeting and we support the motion.

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Appendix 1 Remuneration framework detail

Here is the compensation structure for the CEO.

CEO rem. Framework for FY21	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.800	48%	1.800	30%
STI - Cash	0.821	22%	1.847	31%
STI - Equity	0.404	11%	0.909	15%
LTI	0.687	19%	1.375	23%
Total	3.712	100.0%	5.931	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.

The CEO base remuneration has not increased from last year. Last year, however, he received no LTI due to uncertainty created by the COVID pandemic. The 2020 LTI is being paid to him this year as well as his 2021 LTI. In 2021 the STI and LTI components of his remuneration have increased to bring his package into line with a peer group benchmark, as advised by an external consultant.

Remuneration policy is generally sound although it is sometimes difficult to construe the detail in the Remuneration Report. As one example, the LTI award Of \$1.375m is not mentioned in the report, only the number of performance rights awarded. These were calculated using market price at date of award.

STI is calculated in two steps. First, the STI opportunity is scaled by EBIT with 100% available if EBIT reaches budget and 150% if EBIT is 105% of budget. The next step is to review ten performance measures: Sales revenue, UPAT, EBIT, ROFE, Cash conversion, Project Horizon, Safety, Engagement, Business Metrics and MFuture program. There is only limited detail in the remuneration report as to how these are used. For example, what weighting applies to each outcome in calculating STI.

STI awards are 67% cash and 33% in performance rights which are not vested until the following year.

LTI awards are based on a three-year performance period and use ROFE and TSR measures. Full vesting occurs if ROFE exceeds 26% and if compound TSR exceeds 10% p.a. All equity awards are subject to clawback for cause.

The CEO's opportunities for STI and LTI are the following percentages of base remuneration.

	Target level	Maximum level
STI	68%	153%
LTI	38%	76%

For 2021 the CEO received STI of 134% of base remuneration due to the achievement of many STI stretch results. This was \$2.407m, or 87% of the STI maximum. Metcash incentives are clearly weighted more heavily to the short term, but this may well be appropriate given the fast changes taking place in their markets.

Voting intention

The ASA has the following problems with the Remuneration Report:

1. The STI criteria are complex and confusing.
2. Shareholder approval is not being sought for the STI equity allocation to the CEO.
3. We prefer that at least 50% of STI be deferred equity, but Metcash only defers 33%.
4. We prefer a period longer than three years for vesting of LTI awards.

Last year we voted against the Remuneration Report, but it was adopted by a vote of more than 99%. This year we propose to vote for it, but it is a marginal decision. The company is aware of our views, and we expect that, at the very least, they will put some more effort into improving the clarity of the report in the future.