Australian Shareholders' Association

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Voting Intentions – Premier Investments Ltd 2021 AGM

ASX Code	PMV
Meeting Time/Date	10:30 am, Thursday 2nd December 2021
Type of Meeting	Virtual
Monitor	Jason Cole assisted by Christine Haydon
Pre AGM Meeting?	Yes, with Terry McCartney (Chair of Remuneration Committee), Mark Middeldorf (Investor Relations) and Marinda Meyer (Company Secretary)

Proposed Voting Summary

2	Remuneration Report	For
3a	Re-election of Director - Ms Sylvia Falzon	For
3b	Re-election of Director – Ms Sally Herman	For
4	Approval of Performance Rights Plan	Against
5	Grant of Performance Rights to the CEO of Premier Retail, Mr Richard Murray	For
6	Spill motion (if required)	Against

Key Financials

	2021	2020	2019	2018	2017
Statutory NPAT ($m)	271.8	138	107	84	105
Underlying NPAT ($m)	271.8	138	178	84	109
Statutory EPS (cents)	171.15	86.89	67.51	52.97	66.8
Dividend per Share (cents)	104[1]	37[1]	66	56	51
Share Price at End of FY ($)	26.84	17.57	16.28	17.35	13.35
Statutory CEO Remuneration ($)	5.5	5.67	6.15	6.3	4.47
Total Shareholder Return (%)	56.8[2]	12.3[2]	(2.4)	34.1	(18.1)

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.

1 The FY20 approved interim fully franked dividend of 34 cents per share was paid on 30 September 2020 and is therefore reflected in FY21.

2 For 2020, the calculated TSR includes the 34 cents per share paid in FY21 and it is excluded from the FY21 calculation.

Summary of Historical ASA Issues with the Company

PMV received a first strike on its remuneration report last year with a 48.51% vote against. On balance, the ASA supported last year's remuneration report based on the company's performance and the shareholder experience in what was a very challenging year for the retail sector. The company believed that the protest vote was related to the total of the remuneration package for the CEO and the quantum of the awarded Short-Term Incentive (STI). More discussion on remuneration is provided below in item 2.

The PMV board consists of two female Non-Executive Directors (NEDs) from a total of eight, thus at 25% it sits below the ASA's preferred position of at least 30% representation. The ASA raised this last year with the company advising that they fill available vacancies with the person most suitable to the board's requirements. No board changes occurred in financial year 20-21 (FY21) and both female directors are standing for re-election this year.

The company has received some criticism regarding the Jobkeeper payments that it has received. The extent of these payments was outlined in the ASX announcement lodged on 12 November 2021 which showed that PMV had received $40.5m in financial year 19-20 (FY20) and $46.5m in FY21 for around 4,500 employees. The group was not eligible for the second phase of Jobkeeper from 28 September 2020 onwards.

In May, PMV announced to the ASX that it had refunded $15.6m of the amount received in FY21 which it described as the 'net benefit' that the group had received in FY21. This amount had previously been quarantined by the company to fund the wages of employees who may be stood down due to future State Government mandated lockdowns. It is noted that after this repayment, further lockdowns occurred in some states.

The PMV representatives gave quite a detailed explanation to the ASA regarding the company's perspective on Jobkeeper and as to how it believes it fulfilled the government's original objectives for the scheme. These related to keeping employees in jobs, keeping them engaged during periods of stand down and paying contracted hours whilst the gradual re-opening of stores occurred at varying times throughout Australia.

Additionally, the company explained how the safety net of Jobkeeper at the onset of the pandemic was a factor in their strategic decision making to invest in inventory which ultimately benefitted shareholders. Both ASA monitors came away from the meeting with a better understanding of an issue more complex than is often portrayed.

Key Management Personnel (KMP) Changes

Long-time CEO Mark McInnes stepped down from his position at the end of FY21 and he was replaced by Richard Murray in September 2021. Mr Murray was formerly CEO of ASX listed JB Hi-Fi (JBH).

Review of Board on Governance, Transparency, Fairness to Retail Shareholders

Positives

- Most Directors are investing at least one year's worth of base cash fees in company shares, within 3 to 5 years. Two NEDs have no shares, with one of those directors standing for re-election this year.
- The company meaningfully discloses Environmental, Social and Governance (ESG) issues or risks facing the business and the processes to manage them. These are provided in the Annual Report and the PMV modern slavery statement.
- NED remuneration is within ASA benchmark guidelines.

- The board has currently resolved that there will be no political donations.

Areas for Improvement

- The current structure of the PMV board is now approaching not having a majority of independent directors or an independent chair as per ASA guidelines. Three directors currently meet ASA tenure guidelines whilst three do not. The remaining two directors will have served 12 years on the board by the time of this year's AGM.
- The board does not meet ASA guidelines of having least 30% female and at least 30% male directors as discussed above.
- The company does not provide a skills matrix of the board easily accessible by shareholders, although it does provide a board skills assessment within the Corporate Governance Statement.

Items for Voting

Item 2	Remuneration Report
ASA Vote	For

CEO rem. framework	Target* ($m)	% of Total	Max. Opportunity ($m)	% of Total
Fixed Remuneration	2.0	43%	2.0	27%
STI - Cash	0.75	16%	1.5	20%
STI - Equity	0	0%	0	0%
LTI	1.942[3]	41%	3.884[4]	53%
Total	4.692[5]	100%	7.384[5]	100%

*The amounts in the table above are the statutory 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.*

3 *The target LTI amount has been calculated by multiplying the closing share price ($25.89) on the 27/4/21, this being the start date of the testing period and the day prior to PMV announcing the CEO's appointment, by 50% of the total performance rights to be issued. As this is expected to be the only LTI on foot for the next 4-years, the total amount has been divided by 4 to get an equivalent annual figure.* ***($25.89 x 300,000)/4 = $1.942m)***

4 *The Max. Opportunity LTI amount has been calculated by multiplying the closing share price ($25.89) on the 27/4/21, this being the start date of the testing period and the day prior to PMV announcing the CEO's appointment, by 100% of the total performance rights to be issued. As this is expected to be the only LTI on foot for the next 4-years, the total amount has been divided by 4 to get an equivalent annual figure.* ***($25.89 x 600,000)/4 = $3.884m)***

5 *Total excludes the 200,000 performance rights to be issued (subject to shareholder approval) as a sign-on bonus.*

An assessment of the PMV remuneration structure is complicated by the change of CEO in the early part of Financial Year 21-22 (FY22). Some aspects of the remuneration report relate to legacy payments for the previous CEO, whilst others relate to the new CEO Richard Murray. For the purposes of this assessment, emphasis is given to the remuneration structure of the new CEO with comparisons made to the previous CEO's package where applicable (*in italics)*.

Summary of CEO remuneration package

Fixed Remuneration (FAR)

- $2m per annum subject to annual review.
- *(Previous CEO was $2.75m)*

Short-Term Incentive (STI)

- Paid as cash. FY22 opportunity between 37.5% and 75% of FAR subject to achievement of performance hurdles and other conditions to be determined.
- *(Previously - Up to 100% of FAR paid as cash subject to hurdles relating to growth in Earnings Before Interest & Taxes (EBIT).*

Long-Term Incentive (LTI)

- 600,000 performance rights to be issued (subject to shareholder approval) in four equal tranches of 150,000. The testing periods are as follows:
  Tranche 1 – 27 April 2021 to 30 September 2024
  Tranche 2 – 27 April 2021 to 30 September 2025
  Tranche 3 – 27 April 2021 to 30 September 2026
  Tranche 4 – 27 April 2021 to 30 September 2027
- Vesting is subject to being actively employed on the relevant vesting date and a two-stage performance test relating to Total Shareholder Return (TSR). Firstly, an absolute test in that TSR over the testing period must be positive. Secondly, a peer comparison commencing with 50% vesting for performance at the 50^{th} percentile and 100% vesting above the 75^{th} percentile, with pro-rata vesting in-between.
- Board approval is required to sell shares granted within 7-years and the CEO is not entitled to any additional performance rights for the first four years of employment.
- *A similar arrangement was in place for the previous CEO who was granted 1,000,000 rights at the 2015 AGM.*

Sign-on Retention

- PMV will grant Mr Murray (subject to shareholder approval) 200,000 performance rights in four equal tranches as a one-off sign on retention. Vesting is subject to the CEO being actively employed 1,2,3, and 4 years after commencement.
- It should be noted that on announcing their CEO's exit, JBH advised that Mr Murray would forfeit the 75% of his variable reward plan that would have been paid in restricted shares.

Post-employment restriction.

- At the end of Mr McInnes' employment, PMV has the option to apply post-employment restrictions for a period of 12 or 24 months from the end of his notice period (15 January 22).
- PMV elected to apply these restrictions for a 12-month period and is required to provide him with his total fixed remuneration during the relevant period. As a result, he will receive gross $2.75m. PMV remains entitled to implement the restrictions for a further 12-months. The payment outlined may be considered a termination payment within the meaning of the Corporations Act.
- The company felt that this was a risk minimisation strategy. PMV consider Mr McInnes one of the top retail CEOs in the country and an attractive proposition to competitors. Given his considerable PMV intellectual property, it was considered more prudent to implement employment restrictions than risk him being employed elsewhere.

Positives

- The quantum of board fees are within the Godfrey Group KMP remuneration report benchmarks.
- At least 50% of CEO's pay is genuinely at risk, with STIs, if any, less than fixed remuneration.
- No retesting of performance hurdles is allowed.

- LTI hurdles are measured a minimum of four years or more after issue. This condition is partially met. For the CEO, testing commences after three years and continues to six years. Approval is needed to sell shares granted within seven years.
- Comparator groups are from similar industries and include key competitors and any relevant foreign companies.
- No LTI awards based on comparator groups vest unless performance is >50th percentile.
- Overall, the Remuneration report is readable, transparent, and understandable with a logical relationship between rewards and financial performance and corporate governance.

Areas for Improvement

- Whilst the FAR and STI opportunity are easily identifiable, it is not clear how the number of performance rights to be granted under the LTI was arrived at. The baseline share price for testing is $26.40 (from a 30-day Volume Weighted Average Price (VWAP)) and this represents the face value of the performance rights to be issued. PMV advised that the LTI component was structured as part of the total package offered to entice the new CEO from JBH. The number of performance rights is a function of working backwards from the share price.
- Acknowledging that the remuneration package for the new CEO is set below that of the previous CEO, and that PMV may have had to pay a premium to secure the CEO from JBH, the FAR and STI sit above the 75th percentile when benchmarked with the Godfrey Group KMP Remuneration Guide.
- Whilst the STI performance hurdles for the previous CEO were stated, the performance conditions for the new CEO are still to be determined. PMV advised that Mr Murray's commencement date in September was not a suitable time to be setting priorities and hurdles for his STI, given the turmoil and uncertainty occurring in some parts of the country. However, this is now close to being finalised.
- The STI is paid in cash whereas the ASA prefer at least 50% in equity with a 12-month holding lock.
- No clear disclosure is provided for all KMP performance hurdles, and the weightings applied for each incentive. Rather, a generic description is given as to what outcomes need to be met and how these are tested.
- The LTI is not based on at least two hurdles, with TSR being the only metric used. Positively, no payment is made if TSR is negative.
- Share grants from the vesting of incentive schemes are not purchased on-market.
- Whilst sign-on benefits are structured through deferred equity, testing is starts at one year and continues to four years The ASA preference is for three or more years. Additionally, the vesting is subject only to continuing employment, although board approval is required to sell shares within 7-years.

Assessment of Remuneration Report

	Highly Favourable	Favourable	Neutral	Unfavourable	Highly Unfavourable
Overall Readability		*			
CEO Remuneration					
At least 50% at risk		*			
Max. STI < FAR	*				
Component Disclosure			*		
FAR					
Below Previous CEO		*			
Above 75th percentile				*	
STI					
Metrics not disclosed					*
100% Cash				*	
KMP performance hurdles described not disclosed				*	
LTI					
Testing of performance rights over 3-6 years	*				
Two Hurdles				*	
Absolute TSR Test	*				
Relative TSR Test		*			
Vesting from percentile 50-75		*			
No Re-Testing		*			
No Dividends on Rights		*			
Vested shares issued & outside 15% cap				*	
7-year holding lock	*				
VWAP / Face Value of performance rights disclosed in NOM		*			
LTI Quantum not disclosed				*	
Other					
Sign-On Benefits			*		
Retention Payments				*	
Post-employment restriction			*		
	4	**8**	**3**	**7**	**1**

Conclusion on Remuneration

Despite difficult trading conditions over the Covid-19 Pandemic, PMV have delivered record results and shareholders have undoubtedly benefited from this through TSR.

As shown in the above table, there are aspects of the remuneration report that are well aligned with ASA guidelines and others that aren't. The major negative is in the non-disclosure of the STI metrics, although this was explained by the company and the hurdles attached to the previous CEO were acceptable to the ASA.

On balance, it is considered that the overall remuneration report contains enough favourable elements to warrant ASA support this year.

Item 3a	Re-election of Director – Ms Sylvia Falzon
ASA Vote	For

Ms Falzon is considered independent by the ASA having joined the board in 2018 after an executive career in financial services. She is a director of ASX companies Suncorp (SUN) and Zebit Inc (ZBT) and chair of not-for-profit health service Cabrini. Ms Falzon has no shares in PMV after having now served one full term and the ASA will seek an explanation at the AGM.

Despite this, it is considered that her contribution to the independence and gender diversity of the board should be the determining factors in the ASA supporting her re-election.

Item 3b	Re-election of Director – Ms Sally Herman
ASA Vote	For

Ms Herman has been a board member since December 2011 and is considered independent. She has a large workload, being on the board of ASX listed Suncorp Group (SUN), Breville Group (BRG), E&P Financial Group (EP1) and Irongate (IAP) as well as being a trustee of the Art Gallery of NSW. Her shareholding in PMV satisfy ASA guidelines. She has missed two board meetings over the past three years, both in FY21.

Given the PMV board circumstances relating to gender diversity and independence, the ASA proposes to support Ms Herman despite her high workload.

Item 4	Approval of Performance Rights Plan
ASA Vote	Against

This resolution seeks shareholder approval to issue securities under the performance rights plan outside of the maximum 15% within a 12-month period.

Shareholder approval was first given for this in November 2011, and this expired in November 2014. Further approval was granted at the 2014 AGM, and this expired in December 2017.

If all the performance rights currently on issue are vested and exercised, 673,886 Ordinary Shares will be issued because of that vesting.

Should shareholder approval not be obtained, PMV will not be able to automatically exclude the securities from the 15% cap.

The company advised that they believed it in the shareholder's best interests for approval to be again sought at the AGM, even though historically they have been well below the 15% cap.

The ASA preference is for shares to be purchased on market when incentive schemes vest. If shares are to be issued, then the preference is for these to be included in the 15% cap.

As such, the ASA will vote against this resolution.

Item 5	Grant of Performance Rights to the CEO of Premier Retail, Mr Richard Murray
ASA Vote	For

The proposed LTI for the new CEO is sufficiently aligned with the ASA's objectives and is linked to the shareholder experience through both an absolute and relative TSR hurdle and a 7-year holding restriction. See Item 2 for full details.

Item 6	Spill motion (if required)
ASA Vote	Against

The ASA generally opposes board spill motions in the event of a second strike against the remuneration report. Whilst there are aspects of the remuneration report that are against ASA guidelines, it is evident that there is an underlying relationship between shareholder reward and executive remuneration within it.

Consideration must also be given to overall company performance over the past two years and of the board's efforts in replacing one well-regarded CEO with another in such a quick timeframe.

Given this, it is proposed that the ASA vote AGAINST the spill motion should it be required.

Monitor Shareholding

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.