



Good Result in a Difficult Year

Company/ASX Code	Premier Investments Limited / PMV
AGM date	Friday 4 December 2020
Time and location	10:30 am – virtual meeting via lumi
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Jason Cole
Pre AGM Meeting?	Yes, with Terry McCartney (Remuneration Committee Chair), Marinda Meyer (Company Secretary) and Mark Middeldorf (Investor Relations)

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention has no shareholding in this company.

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

Summary of ASA Position

Premier Investment Limited (PMV) operate a collection of diversified retail brands, along with a 26.73% shareholding in Breville Group Limited (BRG) and 10.77% in Myer Holding Limited (MYR).

Financial performance

In a difficult year for retail that saw stores forced to close for a period due to the COVID-19 pandemic, PMV posted a Net Profit After Tax (NPAT) of 137.8m, an increase of 29% on last year.

At the onset of the pandemic the group’s global operations were shut down and over 9000 employees were stood down. PMV became eligible for \$68.7m in global wage subsidies across seven countries and declined to pay rent on some stores that had been forced to close.

It was a tale of two halves, with the first half delivering record sales across the Peter Alexander and Smiggle brands and record online sales. Second half trading was severely impacted by the pandemic, however online sales growth of 70% during the second half resulted in this sector contributing over 25% of sales during this period. As a result, PMV has further increased its focus on the profitability of individual stores and will be advocating strongly for landlords to accept the shift in consumer behaviour and adjust rents accordingly.

Earnings per share (EPS) increased to 86.89, up 29% from the previous year. A fully franked interim dividend of 34 cents was paid on September 30. This was in addition to the earlier final dividend of 37 cents paid in November 2019. A dividend of 36 cents has been announced by the board. This will be paid in January 2021 as opposed to the traditional November date.

Cash on hand at year end was \$448.8m, up from \$190m. The holding in BRG is valued at \$257.4m in line with accounting standards, however the year end market value was \$947.9m. The fair value of the investment in MYR is reflected as \$18.1m, down from \$46.9m the previous year

Governance and culture

The PMV annual report contains considerable detail regarding the group's commitment to the community and environment. Importantly, for a retail group, details regarding its commitment to ethical sourcing of products and zero tolerance to modern slavery are also comprehensively outlined.

PMV has been recently criticised on several fronts for paying executive bonuses whilst simultaneously receiving taxpayer funded JobKeeper payments, whilst its tough stance on rent has also attracted negative sentiment from landlords. Additionally, Australian Financial Review reports suggested that cash flows were partially benefited by the of delaying payments to suppliers. The CEO advised in the report that all suppliers are being paid as agreed since operations re-commenced.

ASA focus issues

An assessment of the board using ASA guidelines results in 5 directors being considered independent and 4 non-independent. Excluding the CEO, the non-independence relates to tenure, with the 3 directors seeking re-election this year having now served on the board for over 12 years. See the below items for further assessment. By way of contrast, PMV self-assess their board independence as a 6/3 split.

The PMV board currently contains 2 female directors representing 22% of the board, thus falling short of the 30% objective sought by the ASA and ASX. The company has stated that 91% of its workforce are women and that for the past year, women represented 56% of senior executives and 60% of senior management in Australia. The most recent board appointment in 2018 was a female.

The board has a nomination committee and a detailed assessment of the process for the appointment and evaluation of directors is contained in the [corporate governance statement](#) and [board charter](#). The ASA suggested that the publication of a director skills matrix would be of benefit to shareholders and the company agreed to take this feedback on board.

A detailed timeline and account of the company response to the pandemic was provided to the ASA. Overall, it was felt that the existing risk framework had performed incredibly well, given the company was dealing with multiple geographic locations across the world and the unique requirements presented by each location. The company advised that it had very quickly adapted from a centralised to de-centralised structure.

Having spent the past decade investing in an online presence, PMV was able to transition to this space within days of store closures. Company representatives felt that COVID-19 had accelerated consumer behaviour toward online by 2-3 years. Travel restrictions meant that many facets of the business which had been conducted physically, for example inspections of new products and factories, were conducted virtually. It is felt that these initiatives may be implemented on an ongoing basis.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	138	107	84	105	104
UPAT (\$m)	138	178	84	109	67
Share price (\$)	17.57	16.28	17.35	13.35	16.22
Dividend (cents)	71	66	56	51	44
TSR (%)	10.6	(6.2)	30.1	(18.1)	21.2
EPS (cents)	86.89	67.51	52.97	66.8	66.3
CEO total remuneration, actual (\$m)	5.42	6.15	6.3	4.47	5.07

For FY20, the CEO's total actual remuneration was **58.9 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

CEO rem. Framework for FY21	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.75	41.7	2.75	34.5
STI - Cash	1.375*	20.8	2.75*	34.5
STI - Equity				
LTI	2.47**	37.5	2.47**	31
Total	6.595	100	7.97	100

* The CEO has an STI opportunity of between 0% and 100% of their fixed remuneration. For the purposes of this table, the target amount listed (50%) is taken as the amount payable upon reaching the STI hurdle of Earnings Before Interest and Taxes (EBIT) growth of 5% on the previous financial year. A pro-rata amount is paid based on the % of EBIT growth between 5% and 10%, with the maximum opportunity payable at 10% EBIT growth. A discretionary payment can be made at the sole discretion of the Chair for EBIT growth above 10%. No such discretion was used in the 2019 and 2020 financial years.

*** The CEO was issued 1,000,000 performance rights split into four equal tranches at the 2015 AGM. Tranche D, the final tranche was tested in FY20. The share price baseline for each tranche was \$9.88, being the volume weighted average price (VWAP) for the five trading days prior to 4 April 2014. As such, the value of the LTI has been calculated as 250,000 x \$9.88 = \$2.47m.*

In response to uncertainties surrounding the COVID-19 pandemic, the CEO and the Just Group executive team voluntarily did not receive any remuneration for April 2020 and received 80% of their monthly gross remuneration for May 2020. As stores gradually reopened, normal monthly remuneration was restored from June 2020. Additionally, PMV's non-executive directors (NEDs) did not receive any remuneration in April and 80% of their director fees for May through to July 2020. Past practice has seen the chair decline to accept any director fees and this was again the case.

The CEO's fixed remuneration increased from \$2.5m to \$2.75m, effective from the beginning of FY2020. This was the first increase in fixed remuneration since 2015. Both the STI and LTI are aligned to link the interests of executives with the building of long-term shareholder value.

STI

The STI award is paid in cash, whereas the ASA prefer 50% of the STI to be paid in equity with a minimum 12 month holding lock. For participating executives, it consists of both financial and non-financial performance measures requiring minimum performance outcomes to be achieved (hurdles) and KPI's to be met (qualifiers). The hurdles are designed to ensure STI outcomes are aligned to the creation of shareholder value, with no STI payable if hurdles are not met. It is stated that the executive KPIs are quantifiable and weighted according to their value, however no details are provided.

For the CEO, no STI is paid if EBIT growth is less than 5% of the previous year. An explanation of the STI payment metrics is provided with the remuneration table shown above. During the 2020 financial year the CEO received an STI payment of \$2.5m which primarily reflected the 11.9% growth in EBIT for the 2019 financial year. The STI payment for 2020 financial year will be finalised in December.

LTI

ASA guidelines prefer two hurdles for the LTI scheme, with one being Total Shareholder Return (TSR). The PMV scheme consists of only a TSR hurdle. However, it is tested in two stages, with the first being an absolute test requiring positive TSR over the testing period and the second being a relative test against a comparison peer group (S&P ASX200 Industrials excluding overseas and resource companies). This is the model favoured by ASA. For the CEO, 25% vesting commences at the 50th percentile, 50% at 62.5th percentile and 100% at the 75th percentile. This is close to the ASA 's preferred vesting schedule.

As previously stated, the final tranche of performance rights was tested in FY20 with a testing period of 4 April 2014 to 4 April 2020. The TSR over this period was 54.73%, with the share pricing increasing from \$9.95 to \$11.55 at the end of the performance period. This placed PMV in the 68th percentile of the comparison group, resulting in 72% vesting of the performance rights (180,000).

To provide the board with clarity on the impact of COVID-19 on the short-term share price volatility of PMV, indicative TSR tests for two alternative periods (end dates 28 February 2020 and

29 April 2020) were conducted. This resulted in indicative percentile rankings of 78.6th percentile and 75.7th percentile. This would have resulted in 100% vesting of performance rights. The share price at each of these dates was \$16.86 and \$15.30, respectively.

Based on the circumstances surrounding the testing period for this tranche, the indicative TSR results, and PMV's compounding growth over the testing period, the board exercised its discretion provided under the performance plan. As a result, 250,000 performance rights vested into newly issued shares in May 2020. The board has stated that this is the first incidence of exercising its discretion under the performance rights plan.

ASA guidelines oppose the re-testing of incentive schemes. It could be considered that this tranche is not being re-tested, rather re-fitted to be more reflective of conditions over the entirety of the testing period. Additionally, the extraordinary circumstances that occurred at the end of the testing period may give merit to the discretion used by the board in re-fitting the LTI to alternative testing dates.

Factors which could justify this decision include

- the testing period of this tranche stretching over a 6-year period from April 2014.
- the subsequent recovery of the share price from the market low point of \$8.95 in late March to \$21.85, the current price at the time of writing.
- the share price having traded above the end of performance test period price of \$11.55 since September 2015, save for a 2-week period from the 19th March to April 3rd this year.
- The PMV share-price for this two-week period was more adversely impacted than the ASX 200 index, but quickly returned to comparable and subsequent outperformance of the index.

The counter to this argument is the optics of

- paying executive bonuses whilst simultaneously receiving government funded JobKeeper payments for employees.
- paying reduced or no rent to landlords.
- the CEO remuneration package being at the high end compared to companies with a similar market capitalisation according to data available to the ASA.

In response to these criticisms, the company felt that whilst JobKeeper assisted, it wasn't responsible for delivering the company profit. Most of the profit for retail is traditionally in the 1st half and this wasn't affected by COVID-19. Regarding the rental negotiations, it is considered that negotiations of this type occur ongoing and that shareholders would have an expectation of the company looking out for its interests.

As there can be solid arguments mounted for both sides, it is considered that the direction of the ASA proxies should be examined through the interests of a shareholder. The share price at last year's AGM was \$19.64 and it is currently \$21.85. The dividend has been maintained.

It is reasonable to suggest that the CEO's incentive payment was impacted by circumstances and timing beyond his control and the board used its discretion to rectify that. Shareholders don't appear to have been adversely impacted through a reduction in share price, or reduced dividends.

The company appears to have used every means at its disposal to protect the interests of its shareholders.

Given this, and the extraordinary circumstances which occurred this year, it is felt that ASA support of the remuneration report is therefore warranted.

Item 3a	Re-election of Mr Solomon Lew as a Director
ASA Vote	For

Summary of ASA Position

Mr Lew was appointed as a NED and chair of the board in March 2008. He is a director of Century Plaza Investments Pty Ltd, the largest shareholder in Premier. He has over 50 years' experience in the retail industry and extensive experience in property development. Having now served 12 years on the board Mr Lew is no longer considered independent under ASA tenure guidelines. Similarly, ASA guidelines oppose more than 10 years as chair, subject to exceptional circumstances.

PMV acknowledge that the company does not comply with ASX recommendation 2.5 in that Mr Lew is not considered an independent director. An outline as to why he is considered the most appropriate person to chair the board is provided in the [corporate government statement](#). Additionally, the statement contends that the appointment of Timothy Antonie as lead independent director in 2014 and David Crean as deputy chair in 2015 further supports the appropriateness of the board composition.

Mr Lew currently holds more than 4.4 million PMV shares, so is well aligned with shareholders interests. Given this and the details outlined in the corporate governance statement, it is considered that ASA support for another term is warranted.

Item 3b	Re-election of Mr Henry Lanzer AM as a Director
ASA Vote	For

Summary of ASA Position

Mr Lanzer is a managing partner in a leading Australian commercial law firm, having over 35-years' experience in providing legal, corporate finance and strategic advice to Australian companies. He has now served 12-years on the board and no longer meets ASA guidelines for independence. Similarly, he is not considered independent by PMV as the company uses the services of his law firm, although not Mr Lanzer directly. He is currently a director of ASX listed Thorney Opportunities Limited (TOP) and holds 27,665 shares in PMV, well over the objectives sought by the ASA.

It is considered that ASA support for the re-election of Mr Lanzer for another term would be appropriate due to him being the only current director with a law background.

Item 3c	Re-election of Mr Michael McLeod as a Director
ASA Vote	Against

Summary of ASA Position

Mr McLeod is a former executive director of the Century Plaza Group and has been a non-executive director of PMV since August 2002. He has a varied background including being a NED of Just Group Limited for 7-years, chief of staff to a Federal Cabinet Minister and an advisor in the areas of corporate strategy, investment and public affairs. He is not considered independent by ASA for reasons of tenure. However, he is considered independent under PMV's definition. His 28,186 shares in PMV are well above ASA requirements.

Board member Terry McCartney considered that the PMV board is well structured and highly successful, having delivered double digit growth for nearly a decade alongside the executive team. Mr McLeod is considered a strong contributor in his areas of expertise and brings balance and a voice of reason to the board.

However, given his now 18-year tenure on the board, female board representation below 30% and only two NED additions to the board since December 2011, it is considered that on balance an ASA vote against his re-election is regarded as appropriate.

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