Australian Shareholders' Association

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# Super Retail - Successfully coping with changing consumer behaviour

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| **Company/ASX Code** | **Super Retail Group (SUL)** |
| **AGM date** | **Wednesday 28 October 2020** |
| **Time and location** | **11.30 am AEDT held on line virtually** |
| **Registry** | **Link Market Services** |
| **Webcast** | **Virtual AGM** |
| **Poll or show of hands** | **Poll** |
| **Monitor** | **Peter McInally and Kelly Buchanan** |
| **Pre-AGM Meeting** | **Yes, online with Chair Dr Sally Pitkin, Chair of Audit and Risk committee Howard Mowlem (by phone) and Robert Wruck Head Investor Relations** |
| **Item 1** | **Consideration of Reports and Accounts** |
| **ASA Vote** | No vote required |

**The individual(s) (or their associates) involved in the preparation of this voting intention have shareholdings in this company.**

## Summary of ASA Position

The 2020 results have proven the group's management and board supervision capabilities are functioning satisfactorily. Covid-19 interferences had been dealt with. Overall group sales increased 4.2% to $2,825.2M . Previously year increase was 5.4%. Normalised earnings per share (EPS) grew from 70.6 cents to 78 cents before abnormal items making a final reduction to 55.8 cents (pre-AASB16).

The final fully franked dividend was 19.5 cents, a decrease from the 28.5 cents paid in 2019. The 2020 interim dividend forecasted at 22 cents was cancelled.

In divisional results, Supercheap Auto and Rebel sales increased. BCF's sales declined for the year up to the start of Covid. Trading rebounded during the lock-down. As a result, BCF's sales for the year increased. Macpac's sales were down for the year, despite being overall the best performer in on-line growth. The company has both home delivery and click-and- collect as on-line channels with an active club membership base.

Macpac's results for the first half of the year were disappointing.  This extended to its CEO not reaching incentive targets.  Hopefully, restructuring of the department achieves better results from the Macpac division in the future.

The company had a capital raising in June 2020 by way of a rights entitlement, meaning individual shareholders received an entitlement equal to institutional shareholders.  ASA's recommended capital raising by PAITREO (pro-rata accelerated institutional trades rights entitlement offer) was not observed in that unexpected market fluctuations due to COVID made tradeable rights not financially viable.  It is recognised that the company, in raising capital by rights entitlement, dealt with private shareholders better than many other institutions recently.  The rights offer made it clear at the commencement of the offer that the major shareholder was fully subscribing to its entitlement.  At the time, knowing that volatility of the Australian market, due to COVID issues, this gave assured certainty of success to the offer.  The offer did not close until July, meaning conclusion of the offer is carried into the 2021 year.

2020 was the first year Anthony Heraghty was CEO for the full year, having commenced in that position in the 2019 year.  Despite bush fires, floods and COVID-19 events, he has successfully managed the company without having to undertake any drastic negative restructures.  This is a credit to the Board and corporate management.

| (As at FYE) | **2020** | **2019** | **2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| NPAT ($m) | 154.1 | 152.5 | 145.3 | 101.8 | 62.8 |
| UPAT ($m) | 135 | 162.55 | 145.3 | 135.8 | 108.6 |
| Share price ($) | 8.05 | 8.23 | 8.10 | 8.20 | 8.77 |
| Dividend (cents) | 19.5 | 50 | 49 | 46.5 | 41.5 |
| TSR (%) | 4.52 | 7.6 | 5.1 | -2.5 | 0.6 |
| EPS (cents) | 58.8 | 75.6 | 73.2 | 68.4 | 57.7 |
| CEO total remuneration, actual ($m) | 1.993 | 1.578 | 1.504 | 2.485 | 1.548 |

| Item 2 | Adoption of Remuneration Report |
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| ASA Vote | For |

**Summary of ASA Position**

| CEO rem. framework | Target* $m | % of Total | Max. Opportunity $m | % of Max Total Opportunity |
|---|---|---|---|---|
| Fixed Remuneration | 1.185 | 59.4 | 0.737m | 37 |
| STI - Cash | 0.603 | 30.2 | 0.657m | 33 |
| STI - Equity | 0 | 0 | 0 | 0 |
| LTI | 0.205 | 10.4 | 0.597 | 30 |
| Total | 1.993 | 100.0 | 1.993 | 100.0 |

The CEO has ensured the Group has delivered a solid trading performance, recognising the challenges from the Covid-19 pandemic. The overall outcome is that he achieved 135.4% of target in performance with a minus adjustment for Covid-19 reducing the outcome to 128%. This will be the first year that STI is awarded 80% in cash and 20% equity vesting 10% September 2021 and 10% September 2022. Previously, the CEO STI was not linked to payment of part of the incentive in equity. It still falls short of ASA recommendation of at least 50% of STI in equity with minimum one year holding locks.

LTI framework has been formulated to a two-year plan in the context of Covid-19, so that there will be one grant of performance share rights for FY 2021 and 2022 set by reference to a two year plan. This should be a one-off owing to the Covid interruption. The Chair told us the reasoning behind this interim change is that with the current pandemic they just don't feel confident forecasting any further ahead. She also assured us that the company would return to its usual three-year performance periods once the two-year cycle is complete.

Recognising the challenging year due to bush fires and Covid-19 events, front line leaders and their teams are to receive a one-off payment of up to $1,000.00. The wages underpayment of retail management and centre team members that occurred in the period up to 2019 has been now been settled and paid.

The vesting of LTI's over three years is still less than the ASA recommended policy of four to five years. Overall the Remuneration Report is clear in setting out targets and results.

In the base salary changes for the 2021 year, the CEO's salary increased by 5.5%. The salary for the divisional heads of Rebel and Supercheap Auto increase by 4%. All other executive KMP's salaries remain unchanged.

The Annual Report sets out step progress in implementing deferred STI's to vesting in tranches over 2 years. This procedure was implemented in 2019 and progression continues.

The Annual Report tables clearly show executive KMP remuneration for FY20, showing comparison to FY19 in easy understandable tables.

| Item 3.1 | Re-election of Mr Howard Mowlen as Director |
| --- | --- |
| ASA Vote | For |

**Summary of ASA Position**

Mr Howard Mowlen has been a non-executive director (NED) since 2017. His shareholding at 30,000 shares meets the ASA guidelines for minimum shareholding requirements for directors at the end of three years. He does not disclose any other NED positions.

He has a diversified background experience in retail businesses.

| Item 3.1 | Re-election of Mr Reginald Rowe as Director |
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| ASA Vote | For |

**Summary of ASA Position**

Mr Reginald Rowe originally founded the predecessor business of SUL and has been a non-executive director since 2004. Prior to that he had been managing director and chairman for a decade. As major shareholder holding 29.18% interest in the company, he has reason to want to continue as a director. It is noted he publicly informed the market that he was applying for his full entitlement in the June 2020 capital raising. He does not disclose any other NED appointments.

Mr Rowe is not regarded as an independent director due to his past ownership and substantial shareholding. His knowledge of successful business retailing has been acquired over a lifetime.

| Item 3.3 | Election of Ms Annabelle Chaplain AM as Director |
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| ASA Vote | For |

**Summary of ASA Position**

Ms Annabelle Chaplain was appointed a director in March 2020. She lists her current positions as Chair of two companies and a NED of a third. Making Super Retail an additional NED appointment means she exceeds the ASA recommended maximum appointments.

Ms Chaplain has become a member of the Audit and Risk Committee. The Chair, in a meeting with ASA monitors has pointed out that Ms Chaplain has actively fulfilled her duties as a non-executive director willingly taking on the position in the Audit and Risk Committee at a time where dealing with COVID and capital raising has involved consistent decision making. Her other commitments as Chair and Director are less onerous than for normal public companies. Simply, she is a director of one public company and chair of a private company and director of another similar small investment company.

Her work to date with SUL has involved more focussed attention to COVID and Risk Committee than was originally foreseen at the time she was appointed. Her election is backed 100% by the Board.

On gender diversity, ASA recognises that, as the replacement for Ms Inman, female board members will remain at 37%.

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| **Item 3.4** | **Election of Mr Gary Dunne as Director** |
| **ASA Vote** | **For** |

Mr Gary Dunne was appointed a director in March 2020 and appears to have no other current NED appointments.

Noting his executive experience with leading retailers and other business, his knowledge should be advantageous to the Group.

ASA guidelines provide that directors should hold shares in the business equal to one year's director's fees within 3 years of appointment. SUL has a policy for equity acquisition within 5 years. Due to restricted windows of opportunity between appointment and release of annual results after capital raising, there have not been many opportunities to purchase stock. Newly appointed directors are aware of the company's 5 years stock purchase requirement.

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| **Item 4** | **Grant of securities to the MD & CEO Anthony Heraghty** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

The explanatory notes clearly set out the Plan. Eligible executives receive grants of performance rights to acquire shares, subject to performance conditions. These rights are created for alignment between executives and shareholders, without giving dividend and voting rights entitlement until the performance rights vest.

The company's share price as at 30 June 2020 was $8.05. The Plan has adopted a share price base of $7.19 as the performance rights using the capital raising price. Does this give an unfair advantage over shareholders to the MD in having his rights based on a price 10% lower than the market price? Taking into account COVID implication and capital raising extending over the FY20 and FY 21, argument can be made that the company's offer was a practical commercial decision.

Performance rights as part of the LTI for the CEO are part of the employee incentive scheme.

The entitlement is 236,444 performance rights. The benefit is derived over a 2-year performance period with a 4-year vesting period. In the context of the Covid-19 pandemic, the period has been extended to one set of rights for 2021 and 2022 financial years, based on the 2-year business plan. This is a temporary adjustment in response to economic and market volatility created by Covid-19.

The explanatory notes to the notice of annual meeting clearly set out the earnings per share hurdle and show an alignment with shareholders in long-term share price.

The quantity of performance rights awarded compares with similar entitlements provided to the previous CEO who received 131,924 performance rights in a one-year package.

| Item 5 | Increase in Non-Executive Directors' fee pool |
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| ASA Vote | For |

**Summary of ASA Position**

The pool has increased by $300,000.00 from $1,200,000.00 to $1,500,000.00. This is the first increase since 2013. During that time, the Non-Executive Directors have increased from 5 to 7.

Allowing the pool increase is needed to increase the directorship by one person, the ASA position is that it does not oppose the increase.