



Wesfarmers recovers from COVID-19

Company/ASX Code	Wesfarmers/WES
AGM date	Thursday 27 October 2022
Time and location	1 PM at Perth Convention and Exhibition Centre, Mounts Bay Rd, Perth
Registry	Computershare
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	John Campbell assisted by Ian Berry
Pre-AGM Meeting	Yes, on 5 October with Chairman Michael Chaney, Director Mike Roche and Company Secretary Vicki Robinson

Monitor Shareholding: The individual(s) (or their associates) involved in the preparation of these voting intentions have shareholdings in this company.

Summary of issues for meeting

Overall, Wesfarmers has responded positively to an adverse environment, especially in the first half of the year recovering exceptionally well in the second half. The group is well governed and has also demonstrated the strength of being a conglomerate in that some divisions have performed really well, to offset more disappointing results in the retail businesses during the first half.

Proposed Voting Summary

No.	Resolution description	
2a	Re-election of J.A. Westacott AO as a Director	For
2b	Re-election of M. Roche as a director	For
2c	Re-election of S.L. Warburton as a director	For
3	Adoption of Remuneration Report	For
4	Approval of KEEPP deferred and performance shares to the Group Managing Director Rob Scott	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

Governance and culture

Wesfarmers has a strong focus on value-creating strategies and focuses on delivering satisfactory returns to shareholders over the long-term. As a conglomerate the group has to respond effectively and quickly to all challenges in its various business components. The recent successful COVID-19 response in Retail divisions has presented an opportunity to illustrate this.

Financial performance

In a difficult environment Wesfarmers increased revenue by 8.5% and suffered a marginal reduction in net profit of 1.2% to \$2.352 billion. Dividends were 180 cents fully franked for the year, up from 178 cents fully franked in 2021.

Although impacted adversely by COVID-19 in the first half, as reflected in poor results from Kmart, Target and Officeworks, where, at one time almost half the stores were impacted by closures or strict trading restrictions, the group responded by improving and developing its technological offering and minimising the impact of disruption on its customers as much as possible. In contrast, earnings in Kmart/Target increased by 19.4% in the second half as COVID-19 restrictions diminished and supply issues reduced.

Bunnings suffered from COVID-19 restrictions and supply chain impacts but increased its revenue by 5.2% and earnings marginally when compared to 2021. WesCEF revenue increased by 42% for the year reflecting strong operating performances and higher commodity prices for its major products. Industrial and Safety improved its performance with earnings 31% up over 2021.

Capital projects continued with the Mount Holland lithium J/V, including the processing plant at Kwinana, and the purchase finalised in March of the cornerstone to the new Health division, Australian Pharmaceutical Investments (API). Additionally, an ancillary businesses to the Bunnings offering in the tile sector was purchased.

Gearing has deteriorated at year end to 56.3% of net debt to equity from 2.3% in the prior year. It was mainly due to trading conditions in a COVID-19 environment, a normalisation in working capital positions, the purchase of the health business and investment in the mining and lithium processing plant as well as the capital return of \$2.3 billion. If Wesfarmers identifies a business opportunity that complies with their investment policy and criteria they may utilise more gearing.

Capital commitments at 30th June totalled \$534 million. With improved trading in the retail divisions, already evidenced in the new financial year, and positive contribution from the health division, it is envisaged this will not prove a threat to future dividends. Capital investment will continue on both organic and growth bases.

Key events

In terms of capital management, Wesfarmers returned \$2 per share to its shareholders in December 2021 after approval at last year's AGM. In March the purchase of API was consummated to form the foundation of the new Health division, which also provides opportunities expand further into health, beauty and wellbeing. The Mt Holland lithium mine construction project together with the processing plant at Kwinana progressed. Green bonds amounting to Euro 600 million were issued to supplement and diversify funding needs.

Key Board or senior management changes

During 2021/22 two new directors Alison Watkins and Alan Cransberg took up positions with Wesfarmers, the appointments having been announced at last year's AGM. There were no other changes to the Board but the leadership team was strengthened by the appointment of Nichole Sheffield to lead OneDigital and Emily Amos to lead the health division during the year.

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT (\$m)	2352	2380	1697	5510	1197
UPAT (\$m) (WES: "NPAT excluding significant items")	2352	2421	2083	1940	2772*
Share price (\$)	41.91	59.10	44.83	36.10	49.36
Dividend (cents) (Fully Franked)	180	178	170	278	223
Simple TSR (%)	-22.8%**	35.8%	28.4%	12.2%	28.6%
EPS (cents)	207.8	210.4	150	487.2	105.8
CEO total remuneration, actual (\$m)	7.951	6.934	7.763	6.749	6.550

*Underlying profit in 2018 included profits from Coles and a coalmine which were disposed of in 2019 **Simple TSR adjusted to include the return of capital

Election or re-election of directors

Item 2a Re-Election of J A Westacott AO

Ms Westacott, first appointed to the Board in 2013, is CEO of the Business Council of Australia. She was previously at KPMG as a lead partner and Board Director. She has strengths in critical leadership having fulfilled roles with both the NSW and Victorian governments. Other recent positions include Fairbreak Global and Member of the University of NSW Council.

Although approaching the ASA time limit as regards retaining independent director status we recommend a vote for her re-election at this AGM.

Item 2b Re-election of M Roche

Mr Roche has more than 40 years' experience in senior finance positions being a senior actuary with National Mutual/AXA and then in investment banking, including 20 years with Deutsche Bank, where he provided senior financial advice including in M&A, financial strategy and capital structuring as well as mergers and privatisations. His directorships include Macquarie Bank and Macquarie Group.

Item 2c Re-election of S L Warburton

Ms Warburton is a Chartered Accountant with extensive experience in corporate strategy, business operations, finance and risk management. She is a director of 3 other listed companies - Northern Star, Blackmores and Worley as well as positions with Thiess, Mirvac Funds Management Australia Limited, Perth Children's Hospital and the Australia Takeover Panel. ASA guidelines suggest that the limit on the number of directorships of listed companies should be no more than 5. Ms Warburton has 4 as well as her other roles with unlisted entities. The chair advises that she discharges her role as a director in an exemplary manner. It is evident that she is well regarded as a director and we will not oppose her re-election.

Item 3 Adoption of Remuneration Report

The report sets out clearly the remuneration framework and the consequent remuneration elements for key executives and non-executive directors. FY22 remuneration for the group MD and CFO is set out in the statutory remuneration table on page 117 and in both cases shows an increase over FY21 expense.

Contrary to ASA guidelines and the practice of most large, listed entities, WES does not disclose actual take-home remuneration, so the relative amount of remuneration actually derived by executives from year to year is unknown and undisclosed. From a retail shareholder's perspective in ascertaining this information, the information presented in the remuneration report is complicated. In the absence of disclosure, we assess Mr Scott's total take-home pay with respect to FY22 as comprising his fixed remuneration of \$2.5m, plus his deferred share allocation if approved by shareholders \$3.4m and the vesting of 87,872 shares from his 2018 performance share allocation at a date subsequent to 30 June 2022 – if we assume a market price of \$47 for these shares at time of vesting, they were worth \$4.1m, giving total remuneration of \$10.0m. The equivalent assessment of his FY21 take-home pay would have been fixed \$2.5m, deferred \$3.7m and 81,743 shares from his 2017 performance share allocation at an assumed market price of \$57.50 at time of vesting (\$4.7m), totalling \$10.9m. Extracting this information from the remuneration is possible but takes effort which shareholders would not need to take if actual pay tables were disclosed. However, we understand WES' reluctance to make these disclosures without an accounting standard to prescribe the method of calculation, particularly as its remuneration structure has unique characteristics.

WES's executive remuneration structure (KEEPP) differs from many other companies by not having a short-term incentive as such, other than a comparatively small cash bonus of up to 10% of the divisional managing directors' maximum award, subject to a hurdle. The Group MD (Mr Rob Scott) and CFO (Mr Anthony Gianotti) receive no cash bonus. Any non-cash variable remuneration is equally split between deferred and performance shares. Mr Scott's remuneration package for FY22 is set out in appendix 1 attached.

All executive KMP are set a scorecard objective showing target and maximum opportunity for incentive pay and their achievement against this scorecard determines their incentive allocation of cash bonus (for divisional MDs only), deferred and performance shares. The weightings for FY22 were adjusted to include a 15% weighting for the executives' endeavours in seeing through WES' data ecosystem, with the weighting of some other scorecard objectives being reduced to accommodate this weighting. Financial objectives carry a 55% weighting, safety carries a 10% weighting, individual performance on business enhancement carries a 10% weighting and covers topics such as business turnarounds, whilst sustainability topics such as reputation, risk management, people and culture and climate-related initiatives carry a 10% weighting.

Deferred shares are allocated subject to a 12 month service condition, vesting after that period subject to 4-, 5- and 6-year trading restrictions, basically preventing the executive from selling those shares for that period in normal conditions. The remaining 50% of the share-based award is allocated in performance shares which have 4-year performance hurdles only vesting after the end of that period to the extent that the hurdles are passed. For the Group MD & CFO, the hurdles are relative total shareholder return (RTSR) to ASX100 companies (80%), and portfolio management and investment outcomes (20%). For divisional MDs the hurdles are relative total shareholder

return (RTSR) to ASX100 companies (50%), divisional financial performance (for example, annual EBT and average ROC) (50%).

In order to get the allocation of deferred and performance shares, various thresholds are set in the scorecard. All thresholds were met in FY22, and the maximum exceeded in several measures, including financial measures applicable to the Group MD and Group CFO.

Apart from our preference for disclosure of take-home pay, we have other concerns about WES' remuneration arrangements as set out below.

Our other concerns with the WES remuneration structure are as follows:

1. RTSR is the only financial hurdle for the vesting of performance shares for the Group MD & CFO, accounting for 80% of the award. Whilst there are non-financial hurdles for them too (portfolio management & investment outcomes for 20% of the award), the ASA guidelines suggest that an absolute financial hurdle should be in the package. Other executive KMP comply because they have EBT and ROC as financial hurdles for 50% and RTSR for 50% of their awards. As a conglomerate, WES makes no secret of its active search for businesses to include with its other operations and setting an EPS or ROE hurdle might deter management from pursuing such opportunities because acquisitions would be expected to flatten or reduce growth in such measures. We understand the importance of the investment outcomes hurdle very clearly given WES' balance sheet strength and consequent borrowing capacity.
2. Vesting of the relative TSR components commences at median performance rather than above median. There is low probability of this deficiency resulting in performance shares vesting when ASA guidelines indicate that they should not do so.
3. Unlisted deferred and performance shares are issued without dividend rights during the 12 month service period and 4-year performance period respectively, but accrued dividends accumulate during the applicable period and are paid when and to the extent that the shares vest. ASA policy is that they should not be paid on unvested rights, but WES practice has been to allocate shares, not rights to shares.

Taken overall, we are in favour of the innovative approach to remuneration taken by WES which is designed to provide incentives in line with strategic objectives and long-term shareholder returns. The above concerns are of a relatively minor nature and we have decided to vote proxies in favour of the remuneration report this year.

Item 5 Grant of KEEPP deferred and performance shares to Mr Rob Scott, Group Managing Director

It is proposed to allocate to Mr Scott a share-based award valued at \$6,854,166 (ex-potential maximum \$7.5 million), comprising an equal number of deferred shares and performance shares, determined by dividing his incentive amount for each type of shares of \$3,427,083 by the volume-weighted average price of Wesfarmers' shares over a 10-day trading period immediately following Wesfarmers shares commencing trading ex-dividend in August 2022.. Mr Scott had no entitlement to a cash incentive with respect to FY22 results.

The deferred shares will vest after Mr Scott remains employed by the group until December 2023 subject to 4-, 5- and 6-year trading restrictions, basically preventing him from selling those shares for that period in normal conditions.

The performance shares have financial and strategic performance conditions which will be tested after four years. The vesting of 80% of the shares will be determined by comparing Wesfarmers' TSR against the ASX 100 with no vesting below 50% and progressive increments to 75% where full vesting occurs. The vesting of 20% of the shares will be determined by performance against portfolio management and investment outcomes after four years.

The deferred and performance shares are proposed to be allocated in line with the KEEPP remuneration structure which (with some reservations) we have approved in previous years. The amount of these awards is high, but so have been the returns to shareholders in recent years, although lower in 2022 due to market forces. To earn the full value of these awards (which will of course only be determined when the relevant shares vest), Mr Scott needs to elevate the level of total shareholder returns during the performance period of 4 years to 30 June 2026. We propose to vote proxies in favour of the resolution.

Appendix 1

Remuneration framework detail for Group Managing Director

As awarded under KEEPP:	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.500	33.3%	2.500	25.0%
STI - Cash	0	0.00%	0	0.00%
Deferred shares	2.500	33.3%	3.750	37.5%
Performance shares	2.500	33.3%	3.750	37.5%
Total	7.500	100.0%	10.000	100.0%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

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