



Woolworths future is online

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| Company/ASX Code | Woolworths Group Limited / WOW |
| AGM date | Wednesday, 26 October 2022 |
| Time and location | 10:00 am Brisbane time (11:00 am AEDT), Brisbane Convention and Exhibition Centre in Brisbane, Queensland |
| Registry | Link Market Services |
| Type of meeting | Hybrid |
| Poll or show of hands | Poll on all items |
| Monitor | Don Adams with Julieanne Mills and John Lin |
| Pre-AGM Meeting? | Yes, meeting with Chairman Gordon Cairns, NED's Holly Kramer and Siobhan McKenna, Company Secretary Kate Eastoe and Paul van Meurs, Investor Relations |

The people involved in the preparation of this voting intention have shareholdings in this company.

Summary

Total Revenue for FY22 was \$60.8bn, up 9.2% on a continuing basis, i.e. excluding the effect of the Endeavour spin-off. Profits were essentially flat with strong growth in online Woolies X and a significant fall in Big W earnings before interest and tax (EBIT). There have been Board and Management changes with the Chair, Gordon Cairns, about to retire and with a new B2B division. Remuneration policy has not changed.

As well as a comprehensive Annual Report, Woolworths has produced a Sustainability Report, a Governance Report, and a Modern Slavery Report. They can be obtained from the Woolworths web site, and they are worth reading. The level of disclosure is impressive, and we only cover the high points.

Proposed Voting Summary

| No. | Resolution description | |
|------|---|-----|
| 2(a) | Re-election of Ms Jennifer Carr-Smith as a Director | For |
| 2(b) | Re-election of Ms Holly Kramer as a Director | For |
| 2(c) | Re-election of Ms Kathee Tesija as a Director | For |
| 3 | Adoption of Remuneration Report | For |
| 4 | Approval of grant of performance rights to CEO/Managing Director Mr Brad Banducci | For |

Financial Performance

Australian Food revenue was up by 4.5% to \$45.5bn but growth varied between segments. Supermarkets were up by only 1.1%, below the inflation level, Metro was up by 6.0% and Woolies X, the online service, was up 42.3% to \$4.7bn. Online sales are at 10.3% of the total and the company expects that this business will continue to grow rapidly. The group views online sales as the future of the business and they already see Amazon coming at them in dry groceries.

As well as its own food sales, Woolies X provides online support to other divisions such as Big W and NZ Food. In recognition of the growth of Woolies X and its influence throughout the company the Board has named the CEO Amanda Bardwell as a KMP, alongside Natalie Davis, the CEO of Australian Supermarkets.

The new business to business (B2B) division reported sales of \$4.0bn, up by 224% due to the inclusion of the recent investment in PFD.

Big W sales fell 3.3% to \$4.4bn and EBIT fell by 68% to \$55m. We were told that this is due to the broad effects of COVID-19, as well as flood, impacts on store closures.

NZ Food sales were AUD 7.1bn, up by 6.6% but EBIT fell by 11.9%.

Woolworths conducted a \$2bn off-market share buyback, funded mainly from a \$1.7bn debt repayment from the Endeavour spin-off. Non-lease debt increased by \$1.4bn due to the PFD acquisition and higher operating capex. The group has solid investment grade credit ratings of BBB from S&P and Baa2 from Moody's.

We queried their interest rate risk in an environment of rising interest rates. They manage debt risk using interest rate swaps. Leases are generally only exposed to higher interest rates when they roll over.

Summary

| (As at FYE) | 2022 | 2021 | 2020 | 2019 | 2018 |
|--------------------------------------|-------|-------|-------|-------|-------|
| NPAT (\$m) | 1547 | 1606 | 938 | na | na |
| UPAT (\$m) | 1514 | 1504 | 1249 | 1817 | 1676 |
| Share price (\$) | 35.60 | 38.13 | 37.28 | 33.23 | 30.52 |
| Dividend (cents) | 92 | 108 | 94 | 102 | 103 |
| Simple TSR (%) | (4.2) | 21.9 | 15.3 | 12.3 | 25.5 |
| EPS (cents) | 127 | 128 | na | na | na |
| CEO total remuneration, actual (\$m) | 7.39 | 10.82 | 9.45 | 12.60 | 3.87 |

NOTE: The net profit after tax (NPAT), underlying profit after tax (UPAT), 2021 share price, and earnings per share (EPS) have been adjusted from the originally reported values to eliminate the effect of the Endeavour spin-off. 2022 total shareholder return (TSR) is calculated on a continuing basis, ignoring the substantial value to shareholders of the Endeavour spin-off.

Board & Governance

The Woolworths Board is well structured with a useful mix of experience and skills. There is a Board Skills Matrix and brief resumes of the Board on pages 59 to 62 of the Annual Report.

The Chair, Gordon Cairns, and non-executive director (NED) Siobhan McKenna will retire from the Board at the end of the 2022 AGM on 26 October. The new Chair will be Scott Perkins who has been on the Board since 2014. He is also the Chair of Origin Energy and a director of Brambles.

The Board has appointed a small committee, including Chair Scott Perkins and NED Holly Kramer, to conduct a search for two new directors over the next several months.

Re-election of directors

The AGM will consider motions to re-elect three existing directors, Holly Kramer, Jennifer Carr-Smith, and Kathryn Tesija. They each have strong executive and board experience and we intend to vote proxies for their re-election. Their qualifications are listed in the Notice of Meeting and each will speak to their re-election at the AGM.

Holly Kramer has earned a strong reputation as a director and is Woolworth's representative on the Endeavour board. She has impressed us in the meetings we have had with her over the past few years.

Jennifer Carr-Smith and Kathryn Tesija are both US-based directors with strong experience in industries relevant to Woolworths. They attend some board meeting by video link but attend in person at least four times each year for the more important meetings such as results releases and the AGM. Gordon Cairns told us that they generally come for a week each time and spend the time meeting directors and staff and visiting Woolworths operations. They will be present at the AGM and will speak to their re-election.

Management changes

The company has lost two seniors executives: Claire Peters the former head of Australian Supermarkets and Pejman Okhovat the head of Big W. Natalie Davis now heads Australian Supermarkets and is designated key management personnel (KMP).

Daniel Hake is now MD of Big W, and Von Ingram is MD of the non-food retail business which includes Big W, MyDeal (recent acquisition), HealthyLife and PetCulture.

The new B2B division, which includes Woolworths Food, the PFD investment, and other businesses, is headed by Guy Brent.

These appointments have all been made from within Woolworths' existing management structure.

Sustainability – Climate

The Sustainability Report has an extensive set of actions and objectives aimed at moving to the overall objective of net-zero emissions by 2050. Key intermediate targets include having zero emissions from electricity in the stores by 2025. To a limited extent this will be achieved by solar panels on stores where it is practicable, but mainly from purchases of green electricity from the market.

A major problem for Woolworths is how to reduce emissions from their fleet of vehicles. They have a few electric vehicles in the fleet now (with names like BEV and TREV) as test cases. Holly

Kramer told us that they are working on the issue, but it will take a few years to develop a fleet of electric vehicles that are fit for purpose.

They also aim to have zero food waste to landfill by 2025 by distributing edible food to food rescue organisations and other food to farms, wildlife, or recycling.

Sustainability – Diversity

Woolworths has had specific targets for gender equity in the Board, in senior executives, in management and in the team. In the current year the Board is 50% female and senior executive is 38% female, short of the 40:40:20 target they have set. The gender pay gap in like-for-like roles is less than 1%.

They have as well several other diversity initiatives described in the Sustainability Report. They have established a First Nations Advisory Board and appointed a General Manager Indigenous Strategy. There are almost 5,000 Aboriginal and Torres Strait team members. Gordon Cairns and senior executives have been personally involved in listening to indigenous voices across the north of Australia. They have started wholesaling product to stores in remote communities so that prices will match city prices.

In New Zealand they have established a Maori and Pasifika Talanoa (committee). There is a project to design spaces and jobs for people with disabilities. For a number of years they have provided mini-Woolies in special schools to train intellectually disabled people to become team members. There are programs to support the LGBTQ+ community and to provide employment opportunities for refugees. There is a special program to recruit refugees with IT skills.

Sustainability – Modern Slavery

The Modern Slavery Report is comprehensive and of course it focuses on the many suppliers of products to the stores. While this is a huge task, they are making good progress. For example, because of Woolworths' audits some Malaysian suppliers have returned passports and reinstated wages to their workers. They also looked at suppliers of cleaning and trolley collection services and eleven of these contractors have lost the business that they had with Woolworths.

Underpayment issue

In 2019 the group announced that there had been substantial underpayment to salaried employees and by the end of FY21 the total expense (reparations and administration) had reached \$500m. In FY22 a further \$201m in underpayments were detected. The \$36m of these that had occurred in FY22 were expensed in that year and the \$165m (\$115m after tax) that related to prior years were expensed as a special item.

This year they calculated how much less senior executives' remuneration would have been had these expenses been recognised in prior years and adjusted short term incentive (STI) payments to compensate. For example, Brad Banducci's STI opportunity was \$2.6m. The Board decided to pay only 70% of STI for FY22 which would have reduced it to \$1.82m. This was then reduced by \$0.286m to adjust for the prior year underpayment effect.

Brad Banducci had previously voluntarily given up all his 2020 STI when the underpayment issue first emerged.

Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO

We intend to vote proxies in favour of both motions. A more complete description of the remuneration report is in the Attachment.

Generally, the group's remuneration policy is sound except that long term incentive (LTI) is vested after three years. ASA policy prefers a longer vesting period. Despite the ASA mentioning it to them every year Woolworths has not accepted our suggestion that the LTI vesting period be extended.

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Appendix 1 Remuneration framework detail

Here is the compensation structure for the CEO, Brad Banducci.

| CEO rem. Framework for FY22 | Target* \$m | % of Total | Max. Opportunity \$m | % of Total |
|-----------------------------|-------------|------------|----------------------|------------|
| Fixed Remuneration | 2.605 | 33% | 2.605 | 24% |
| STI - Cash | 1.300 | 17% | 1.950 | 18% |
| STI - Equity | 1.300 | 17% | 1.950 | 18% |
| LTI | 2.600 | 33% | 4.420 | 40% |
| Total | 7.805 | 100% | 10.925 | 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.

Remuneration policy is generally sound and the presentation in the FY22 Annual Report is clearer than in prior years. For each KMP they show the value of their shareholding against the Minimum Shareholding Requirement (MSR). All KMP satisfy the MSR.

After advice from PWC, the Board approved increases in Fixed Remuneration in FY23 for three KMP, but not for the CEO who has had no increase in four years. The TFR for Ms Bardwell and Ms Davis increases from \$965k to \$1075k and for Mr Harrison from \$900k to \$985k.

The Chair said that they need to pay senior executives well since Woolworths' executives are highly sought after. He also said that they were advised that no increase was needed for Mr Banducci.

STI is awarded 50% in cash and 50% in equity deferred for two years and not subject to performance. The award is based on 5 factors – Sales, EBIT, Working Capital Days, Customer Satisfaction and Safety with a payment of 150% of TFR if all factors achieve the “stretch” level. In FY22 two factors, Sales and Safety, reached stretch level while no others reached entry level. Therefore, the pay-out would have been 60% but the Board adjusted it to 70% on the basis that the Working Capital target was just missed due to inventory build up as a response to COVID. This was further adjusted for past underpayment as described in the body of this report.

They are using a new safety measure which places more emphasis on the severity of incidents, and we were told that it worked well, providing more useful information for the Board and management.

LTI is based 40% on relative TSR, 40% on return on funds employed (ROFE) and 20% on a Reputation measure. This reputation measure is generated by RepTrak, a firm that measures companies' reputations globally. The highest rated company is Rolex with a rating of 79.0. Woolworths would not reveal their current rating and it does not appear to be found on the internet. It will be revealed in a couple of years when the first vesting under this target takes place.

Pay-out for LTI in FY22 was based on the FY20-22 plan which used Sales per Square Metre as the third factor. Relative TSR and Sales per Square Metre were achieved at stretch, but the ROFE did not make the entry level. The pay-out in performance rights was 66.7% of the maximum.

Given that FY22 TSR was (4.2%) one might be surprised, but the LTI measure is over three years and the group achieved a 38.1% TSR over that period, placing it in the 78th percentile of the comparison group and therefore over the 75% stretch target for relative TSR.