



Another good performance!

Company/ASX Code	Carsales.com Limited/CAR
AGM date	Friday 28 October 2022
Time and location	11am at Company HQ, 449 Punt Road, Richmond, VIC
Registry	Computershare Ltd
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Henry Stephens assisted by Richelle Janjatovic
Pre AGM Meeting?	Yes, with Chair Patrick O'Sullivan

Monitor Shareholding: The individual(s) involved in the preparation of this voting intention have no shareholding in this company.

Summary of issues for meeting

Carsales.com is a well governed company and we do not have any major issues. As Kim Anderson has been on the Board for 12 years, the ASA does not regard her as independent. However, for the reasons discussed below (under Re-election of Directors) we will support her re-election at the AGM.

We also note that the Chair has been a director of the Company for 15 years and Chairman since 2019. Under the ASA Guidelines we do not recognise the Chair as being independent (Note: ASX rules stipulate 10 years). At the present time we note that there are 3 independent directors out of 7 Board members which is not our preferred position.

Proposed Voting Summary

No.	Resolution description	
2	Adoption of FY22 Remuneration Report	For
3a	Re-election of Ms Kim Anderson as a Director	For
3b	Re-election of Mr David Wiadrowski	For
4a	Grant of Rights to the MD and CEO in respect of the FY22 STI	For
4b	Grant of Performance Rights to the MD and CEO in respect of the FY23-25 LTI	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

Governance and culture

The Company “attributes its success to the capability, loyalty and culture of our team.” Management is very focused on retaining staff and attracting new talent in a very competitive talent market and they continue to win awards including Great Place to Work (for the 5th consecutive year) and Employer of Choice (for the 8th consecutive year). The Company has created a new Sustainability Board Sub-Committee to oversee the ESG strategy and for the first time the company’s goals in the ESG report are clearly linked to those of the United Nations’ Sustainable Development Goals (SDGs). The 58-page ESG report is very detailed and includes sections on data security, health and safety, gender pay equality, diversity and equity in the workforce, employee benefits, waste and modern slavery. Furthermore, during FY22 the Company’s Australian business operations were certified carbon neutral under the Australian Government’s carbon neutral certification program Climate Active. From FY23 the Company will start reporting against the Task force on Climate-related Financial Disclosures (TCFD) framework which will be included the financial statements.

Financial performance

Carsales.com performed very strongly in FY22 with adjusted sales increasing 16% to \$509.5 million and adjusted net profit after tax increasing 27% to \$194.8 after adding back \$23 million of acquired intangibles and \$6.4 million of non-recurring costs associated with the Trader Interactive acquisition. The strong lift in net profit came from higher earnings before interest and tax and the profit contribution from the company’s 49% interest in Trader Interactive.

Key events

In June 2022 the Company exercised its call option to acquire the remaining 51% interest in Trader Interactive for \$1.1 billion. Founded in 2010 in Virginia USA, Trader Interactive is a leading, integrated platform of branded marketplaces providing digital marketing solutions and services across commercial truck, RV, powersports, and equipment industries. The acquisition was funded by a \$1.2 billion institutional and retail non-renounceable, pro-rata non-renounceable equity capital raising on the same terms at a price of \$17.75 per share.

Key Board or senior management changes

The Chief Financial Officer, William Elliot assumed responsibility for the company’s investments (Tyresales, Tyre Connect, Redbook Inspect and iMotor) from April 2022. Following the resignation of Ajay Bhatia, formerly MD Carsales.com Australia, Paul Barlow was promoted to the role and is now responsible for all Australian operations.

ASA focus issues (not discussed under remuneration report or re-election of directors)

The Audit Committee has overseen a competitive tender for the Company’s external auditor and has reappointed Price Waterhouse Cooper.

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT (\$m)	160.8	130.7	119.9	85.3	184.6
UPAT (\$m)	194.8	152.8	138.2	131.3	127.8
Share price (\$)	18.39	21.83	17.74	13.53	15.12
Dividend (cents)	50.00	0.475	0.47	0.455	0.420
Simple TSR (%)	-13.5	25.8	34.5	-7.5	37.9
EPS (cents)	56.9	52.6	48.9	54.2	0.527
CEO total remuneration, actual (\$m)	4.7	3.7	2.32	2.11	2.58

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking) by the share price at the start of the year.

Election or re-election of directors

- The board does not have a majority of independent directors (3 out of 7 directors). Under the ASA Guidelines, we do not regard the Chair, Patrick O’Sullivan, as independent because he has been a director of the company for 15 years which exceeds our recommended tenure limit of 12 years. In addition, we do not regard Kim Anderson as independent for the reasons discussed below.
- The ASA notes that the Chair, Patrick O’Sullivan, has a total of three CHAIR roles at Carsales.com, Technology One and SiteMinder Ltd and he is also Deputy Chair of The Little Company of Mary Health Care Limited, a charity with 18,000 staff. The ASA’s view is the maximum director workload is equivalent to five NED roles (Chair counts as two) compared to a score of 7 for Mr O’Sullivan. Mr O’Sullivan has told the ASA that he would spend about 300 hours per year on each of these roles (ie 37 days per role per year assuming 8 hours per day) which in our opinion is lighter than we would expect from a Chair role. We note that he has attended all the Board meetings and various Board members we have spoken to attest that he is on top of his brief at all Board meetings. In addition, they all agreed that the Chair is accessible to fellow directors and key management personnel at all times. The ASA believes that this is an important issue and we will raise it again at his re-election but it is not an issue for this particular AGM.
- The board has two female directors which is in line with the ASA’s preferred minimum of at least 30% female directors.
- The board has at least 30% male directors with diversity of geography, age, and ethnic background.
- Directors and other key management personnel (KMP) have/are investing at least one year’s worth of base cash fees in company shares, within 3 to 5 years.
- The company meaningfully discloses ESG issues or risks facing business and the processes to manage them.
- The company discloses a skills matrix in the Corporate Governance Statement for the directors of the Company for the directors of the Company.

- Kim Anderson joined the Board in 2010 as an independent director and is up for re-election. She is the Chair of the Company's People and Culture Committee and is a member of the Audit Committee and the Sustainability Committee. She brings to the Board more than 30 years' experience and knowledge in the marketing, media and entertainment industries having previously held senior management positions in PBL Ltd, Southern Star Entertainment and Ninemsn. In addition, she is currently a non-executive director of Invocare Ltd, Infomedia Ltd, SiteMinder and the Sax Institute, a not-for-profit organisation in health policy. Kim has been on the Board for 12 years, so the ASA considers her no longer independent. Because there is not a majority of independent directors on the Board,, we would usually vote against a non-independent director seeking re-election. In this case, the ASA accepts the Company's argument that she has been asked to stay on for one more term to provide expertise around people and culture with regard to the Trader Interactive acquisition which has a different remuneration system from the Australian operations. Trader Interactive is a major acquisition and event in the life of Carsales.com. The acquisition will increase sales revenues by almost 50% and EBITDA by 45% and Kim Anderson is the main people and culture expert on the Board at the current time. It makes no sense in removing her at such an important time in the history of the Company. We are also conscious that she brings necessary diversity to the board. As a result, the ASA will support her re-election but will be advocating that her term on the board should end as soon as the Trader Interactive acquisition has been bedded down and a suitable female candidate is found to replace her.
- Mr David Wiadrowski is an independent director who joined the Board in 2019 and is Chair of the Audit Committee and a member of the Risk Management and Sustainability Committees. He has over 25 years' experience as a partner of PwC where he has extensive experience working with companies in the technology, infocoms and media industries. He was lead audit partner for Network Ten, APN News and Media and Yahoo during his time with PwC. The ASA supports his re-election because of his strong financial credentials and technology expertise gained from his many years with PwC. He has adequate "skin in the game."

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

- The FY22 actual STI outcome for the CEO is \$1,707,131 which is delivered 75% in cash and 25% in deferred shares. The STI outcome is equal to 103% of the maximum STI outcome and the ASA believes this pay-out to be fair to both shareholders and the CEO and is based on clear objectives and thresholds as set out on pages 43 and 41 of the annual report.
- Shareholders are asked to approve a grant of 22,653 rights to the CEO which is equal to the deferred portion of the CEO's STI outcome (i.e. \$426,783) divided by the 20 day weighted average stock price of \$18.84. At the end of the 12 month period the CEO will be able to receive the deferred STI as either shares or cash subject to various service conditions. One share will be allocated for each right and no amount is payable in respect of the grant of rights. The ASA supports the motion.
- Item 4b seeks approval for the grant of up to 107,219 performance rights to the CEO as part of his FY23-25 LTI opportunity. The number of performance rights to be granted is calculated by dividing the CEO's LTI opportunity (i.e. 122% of FY23 fixed remuneration) by the weighted average share price for 20 days of \$18.84. The CEO will only receive these performance rights if certain measures are met, namely an EPS performance measure (35% weighting), a relative

total shareholder return (TSR) measure (35% weighting) and various non-financial strategic measures (total 30% weight).

- The EPS performance figure is only vested if CAGR is greater than 3% and the relative TSR performance measure is measured against a peer group comprising 30 Australian and US companies that Carsales.com competes against for advertising space and talent in Australia and overseas. No vesting of performance rights will occur if the EPS growth rate is less than 3% and if greater, then vesting will occur as shown in the vesting schedule in the Notice of Meeting.
- With respect to the relative total shareholder return measure, this measure compares the change in the Company's stock price together with the value of dividends for the three years to 30 June 2025 against the total shareholder return of a bespoke peer group of 32 ASX200 listed Australian and international companies. The Australian companies largely come from the retail, media and entertainment and information sectors as disclosed in the Notice of Meeting. If the Company's relative TSR performance falls below the 50th percentile then zero performance rights will vest. See the Notice of Meeting for the full vesting schedule.
- The strategic measures used to assess performance contain objectives in the following areas: international business metrics, talent metrics and cyber safety metrics. Due to competition these measures are not fully disclosed until the end of the three year performance period. Achievement of each of the strategic measure is assessed by the Board on a three point scale: zero vesting if the objective is not achieved, 50% vesting if partially achieved and 100% vested if the objectives are fully achieved.
- Overall the ASA views the granting of these LTI and STI rights to be fair and reasonable and properly disclosed in the Notice of Meeting.

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Appendix 1

Remuneration framework detail

CEO rem. Framework for FY22	Target* \$m	% Of Total	Max. Opportunity \$m	% Of Total
Fixed Remuneration	1.500	39%	1.500	29%
STI – Cash 75%	1.242	32%	1.676	33%
STI – Equity 25%	0.414	11%	0.559	11%
LTI	0.710	18%	1.421	27%
Total	3.866	100.0%	5.156	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.

- CEO's actual take-home remuneration, as well as the target and maximum opportunity of each component is clearly disclosed. The CEO's fixed remuneration for FY23 has been increased from \$1.5 million to \$1.65 million to reflect the larger size of the Company (due to the US acquisition), the Company's strong performance and the fact that the CEO has not had an increase for the last two years.
- The total quantum of the CEO remuneration package is in line with the Godfrey Remuneration Group report benchmarks.
- The quantum of board fees is in line with the Godfrey Remuneration Group report benchmarks.
- More than 50% of CEO's total remuneration is genuinely at risk, with STIs, if any, less than fixed remuneration.
- Majority of STIs are based on quantifiable and disclosed performance metrics and, where non-financial hurdles are used, no STIs are paid unless a financial gateway is met. The board made one change to this year's remuneration report which the ASA considers to be fair and reasonable. The target STI and the maximum STI has been increased to 110.4% and 149% (previously 110%) respectively of fixed remuneration. This has been done to encourage outperformance in financial achievement over and above the company's 5 year CAGR. For FY22 the maximum STI is capped at 135% of the target opportunity.
- Clear disclosure is provided for all KMP performance hurdles and the weightings applied for each incentive.
- No retesting of performance hurdles is allowed.
- LTI hurdles are based on at least two hurdles, one of which is total shareholder return (TSR), with no payment if absolute TSR is negative. For the 2021-23 plan period, the Board has retained adjusted earnings per share (EPS) as a performance measure and has introduced

relative TSR to replace the look-through revenue measure. The ASA is in favour of this change as it will enhance alignment of executive remuneration outcomes with that of shareholders.

- 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.
- Key management personnel (KMP) actual remuneration received for FY22 is clearly disclosed in note 3.2 in the Annual Report.
- The CEO has adequate skin in the game.
- Face value is used to calculate the number of performance rights to be allocated.
- KMP's received on average 103% of their maximum STI for FY22 or \$1.7 million. This compares with 100% in FY21 and much lower numbers for the 3 years 2018-2020. The STI is paid 75% in cash and 25% deferred for 12 months. The STI plan incorporates both financial and non-financial performance measures in the ratio of 70% / 30%. The financial criteria are Adjusted Look Through Revenues (35% weighted) and Adjusted Look Through EBITDA (35% weighting) and the non-financial objectives are Strategic Objectives (20% weighting) and People and Culture (10%). A minimum threshold of 3% growth in the financial measures has to be met before any vesting can take place. Page 43 of the Annual Report clearly sets out the actual results for each of the performance measures. Overall, the ASA believes that the STI plan is fair and reasonable and there is close alignment with shareholders' interests and KMP's STI objectives.
- For the FY20-22 LTI the KMP's received 75.7% of their vesting outcome. The KMP's did not receive the full amount because they did not meet all of the performance objectives. The LTI plan has two financial objectives (look through revenue and adjusted EPS) both equally weighted to total 70%, and three strategic objectives (growth in international business, trust and brand metrics, and domestic business milestones) weighted 10% for each objective. There are minimum performance thresholds (see page 46 in the annual report) that must be achieved prior to any award vesting. This year the brand measure was not achieved and did not vest, and the financial objectives, the revenue and EPS measures vested 22.4% and 33.3% respectively to result in a total vesting outcome of 75.7%. For the FY22 LTI, payment is in the form of performance rights (70%) and options (30%). However, it should be noted that in FY21, the Board decided to simplify the FY21-23 plan to have performance rights only which is in alignment with the ASA's views. Overall the ASA believes that the LTI is fair and reasonable and in alignment with shareholders' interests.