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Survives the storm

Company/ASX Code	**Coles Group/COL**
AGM date	Wednesday 9 November 2022
Time and location	10.30am Melbourne Convention and Exhibition Centre web.lumiagm.com/366051396
Registry	Computershare
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Stewart Burn assisted by Mike Robey
Pre AGM-Meeting?	Yes, with Chair James Graham and Chair, People and Culture Committee, Richard Freudenstein

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

Summary of issues for meeting

Coles Group is a well-run company which is well governed and has performed well during the difficult pandemic period in which it has been listed, since its spin-off by Wesfarmers. The business is investing in future technologies for long term automation to improve efficiency and has recently announced divestment of its Shell Express business.

Proposed Voting Summary

No.	Resolution description	
2.1	Election of Mr Terry Bowen as a Director	For
2.2	Election of Mr Scott Price as a Director	For
2.3	Re-Election of Mr James Graham as a Director	For
2.4	Re-election of Ms Jaqueline Chow as a director	For
3	Adoption of Remuneration Report	For
4	Approval of STI shares to CEO/Managing Director Stephen Cain	For
5	Approval of LTI incentive grant to CEO/Managing Director Stephen Cain	For

Summary of ASA Position

Governance and culture

The only negative to highlight regards the award remediation process regarding the underpaying of staff and the ongoing class action regarding this issue. The ASA would have hoped that this issue would have been resolved by now.

Financial performance

Excellent financial performance considering the climate in the last year. Sales revenue up 2.2%, NPAT up 4.2%, EPS up 4.6% and dividend up 3.3%.

Key events

Coles Group has agreed to divest the Shell Express business for $300m in the second half of the current financial year.

Key Board or senior management changes

It is proposed to elect two new members to the Board, Mr Terry Bowen and Mr Scott Price. The ASA does wonder why this was not seen as an opportunity to increase its gender diversity as there are currently only 3 women (30%) on the board.

Summary

(As at FYE)	2022	2020	2019	2018
NPAT ($m)	$1,048	$1,005	$978	$1,434
UPAT ($m)	$1,048	$999	$951	$1,078
Share price ($)	$17.81	$16.83	$16.79	$13.35
Dividend (cents)	63.0	61.0	57.5	35.5
Simple TSR (%)	9.6	3.9	30	6.9
EPS (cents)	78.8	75.3	73.3	80.8
CEO total remuneration, actual ($m)	$7.25	$4.30	$4.85	$5.4

Election or re-election of directors

The current board of 7 members meets the ASA objectives re composition, independent directors and gender diversity. It is proposed to appoint 2 new directors Mr Terry Bowen and Mr Scott Price.

The workload of Mr Bowen is of concern, as following his appointment he will be a director of ASX-listed companies, Coles, BHP, Transurban, unlisted company, Navitas, and the Western Eagles. He is also Chairman of BGH Capital. This workload exceeds the NED roles recommended by the ASA of 5. After discussions with the chairman the ASA was advised that two of these positions had a very small workload, consequently the ASA supports his election. However, a watching brief will be maintained on his workload.

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

The remuneration for the Chairman and the NED's falls within the guidelines of the Godfrey Remuneration Report and that of the MD/CEO is at the higher end for similar sized companies.

The Total Fixed Compensation of the MD/CEO package at $2.15m is comparable with other companies of a similar size and the STI package fits within the guidelines of the ASA. The 2019 award of 300,217 shares vests this year and is valued at $5.4m using the year end share price of $17.82. These shares were vested at 100% using ROC and RSTR performance hurdles.

Considering the full vesting of the LTI for 2019, one could question whether the hurdles set by the board are high enough. The annual report details that the ROC was 16.4% and the RTSR was 9.6%. For a company in consumer retail such as Coles Group, which operates in what is close to a duopoly market, achieving the target ROC and TSR should not be such a challenge that it justifies a large premium on the LTI and one could question whether the ASX100 was the best comparator for the RTSR. Based on this year's outcome, one could think that Coles Group is marking their executives easy in this respect for LTIs, especially when we note that the target EBITDA actually decreased from last year. However, it is the overall package that is critical and the fact that Coles Group are willing to place more of Mr Cain's remuneration package at risk is in line with ASA guidelines.

For 21/22 the LTI component of 218,878 shares valued at $3,762,500 (equivalent to 175% of Mr Cains total fixed compensation) is considered by the ASA as being at the higher end of packages, as it would raise Mr Cains total package well above the 75th percentile compared to similar companies. This issue will be discussed further with the board.

We also believe that Coles Group should quantify the non-financial measures of NPS and people engagement, as do other large companies, like Telstra

Appendix 1

Remuneration framework detail

CEO rem. Framework for COL	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.150	37%	2.150	25%
STI - Cash	0.86	15%	1.29	15%
STI - Equity	0.86	15%	1.29	15%
LTI	1.881	33%	3.762	45%
Total	5.75	100.0%	8.492	100%