Australian Shareholders' Association

Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Fiscal 2020: Challenging environment, CAR delivers

Company/ASX Code	Carsales.com
AGM date	30 October 2020
Time and location	1200hrs AEDT, Virtual AGM https://web.lumiagm.com/355186713.
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Henry Stephens assisted by Hans Ha
Pre AGM Meeting?	Zoom meeting with Chair Patrick O'Sullivan, Nicole Birman (General Counsel), Kim Anderson (Director), Edwina Gilbert (Director) and Jo Allan

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention has no shareholding in this company.

Item 1	**Consideration of financial report**
ASA Vote	No vote required

Summary of ASA Position

<u>Governance and culture</u>

The company prides itself on having a strong sense of values, culture and passion. Carsales has been recognised as a Workforce Gender Equality Agency Employer of Choice in 2020, a certified Great Place to Work and an Australian Association of Graduate Employers Top Graduate Employer.

<u>Financial performance</u>

In spite of Covid-19 and the bushfires in early 2020, Carsales delivered a reasonable result for the 2020 financial year. Adjusted revenues increased 1.3% to $423.1m, adjusted earnings before interest, tax, depreciation and amortization (EBITDA) increased 6.4% to $231.8m and net profit after tax increased 6.1% to $138.2m. Adjusted EBITDA margins increased from 52% to 55% which reflects continued operating leverage in the business and cost savings. The adjusted numbers exclude certain non-recurring items including the largest item, a $27.5m rebate support package to car dealer customers which was designed to benefit customers during the months of April (100% rebate), May (50%) and June (100%). If you include these one-off items then reported revenues declined 5.2% to $395.6m, reported EBITDA declined 5.1% to $202.0m and reported NPAT declined 9.2% to $119.9m.

Dealer revenues increased 10% to $168.7m due to solid growth in lead volumes and premium listings. Lead volume growth was driven by a resilient used car market and changes in car buying behaviours due to Covid-19. Private revenue declined 5% to $77.8m reflecting the negative impact in the second half of the year of the Covid-19 pandemic on volumes in key product areas, including private on-line adds, inspections and tyre sales. In the first half of the year private revenue was up 7% driven by tyre sales volume growth and increasing penetration of the Instant Offer product. Media revenues declined 22% to $50.2m which reflects the challenging environment in the automotive advertising market which saw new car sales down 14% in FY20.

Adjusted international sales increased strongly in FY2020 – up 12% to $104.8m and international EBITDA increased even more, up 19.8% to $45.6m. On a look-through basis international sales now account for 24% of total sales and 19% of EBITDA. The strong growth largely reflects excellent growth in South Korea with revenues up 17% and EBITDA up 20%. South Korea has been significantly less affected by the Corona virus than most countries. The main drivers of growth have been 1) standard dealer listing volumes growth of 8%; 2) 15% increase in website visits and 14% increase in leads, and 3) guaranteed vehicle inspection service with the opening of 9 new branches. Webmotors (Brazil) also performed strongly with revenues and EBITDA up 10% and 4% respectively although on an equity accounted basis (30% ownership) the contribution is less.

Key events

The key event during FY2020 was Covid-19 and the company responded to this challenge by supporting the dealer network with significant rebates ($28 m) as discussed in detail below; reducing the marketing spend, refinancing and increasing the existing debt facility and implementing a 20% reduction in Board Director fees and Executive KMP salaries during the difficult months of April, May and June 2020. The company received $5 m of Job-keeper payments from the federal government and this was paid out to employees. The company implemented stand downs and no redundancies were made.

Key Board or senior management changes

In January 2020, the company appointed William Elliot as the new Chief Financial Officer after an extensive executive search process. Will has been with the company for four years and has held several senior finance positions including Head of Commercial Finance and CFO International, and has been acting CFO since October 2019. Will has more than 14 years of finance experience and prior to Carsales, held senior finance roles at PwC, iFlix and Murray Goulburn.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT ($m)	119.9	85.3	184.6	109.5	109.3
UPAT ($m)	138.2	131.3	127.8	119.1	107.0
Share price ($)	17.74	13.53	15.12	11.52	12.32
Dividend (cents)	0.47	0.455	0.420	0.382	0.368
TSR (%)	34.5	-7.5	37.9	-3.4	24.5
EPS (Reported, cents)	48.9	54.2	0.527	0.454	0.454
CEO total remuneration, actual ($m)	3.30*	2.11	2.58		3.1

For FY2020, the CEO's total actual remuneration was **35.9 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

* Includes FY2018 LTI grant of $1.5 m which vested in August 2020.

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

Summary of ASA Position

At the 2019 AGM the company received a "first strike" against the Remuneration Report. The board proposed to reduce the financial performance conditions attached to the STI (and LTI) from 70% financial to 60% and increased the company-wide strategic, personal and cultural objectives (non-financial) to 40%. The ASA voted against the Remuneration Report on the basis that the STI was the place to adopt a higher ratio of "softer" measures and the not the long term LTI. The voting against the Remuneration Report was very high with 32% of votes cast against and 52% against the LTI award to the CEO.

As a result of the first strike, the company engaged with shareholders and proxy advisors, including the ASA, and has made the following changes to the FY2018-2020 LTI plan and the FY2020 STI:

1. To revert back, as in prior years, to 70% financial performance and 30% strategic performance for the LTI plan and to adjust the STI plan performance measures to 30% strategic and 70% financial performance.
2. Threshold gateway restored and a non-linear vesting schedule introduced to reflect the difficulty in achieving higher growth stretch targets for key management personnel.
3. Improved transparency on strategic performance achievements within the STI and LTI plans.

For the financial aspect of the FY2020 STI plan (70% of the plan), the board decided not to pay a short term bonus even though the adjusted NPAT performance threshold was met which would under normal circumstances have resulted in a 72% pay out for this financial measure. The board made this decision based on shareholder feedback, the magnitude of the adjustments for the year including the Dealer Support Package and the Job Keeper wage subsidy. As a result, the board "determined that exercising negative discretion by using Reported NPAT was appropriate." For the strategic objectives of the STI (30% of the plan) a scorecard outcome of 93% was achieved and overall a total outcome of 28% was achieved.

With respect to the FY2018-20 LTI plan, the adjusted NPAT performance threshold was met but the look through revenue performance hurdle was not achieved. However, the board exercised their discretion to vest the financial component of the LTI plan at the mid target which equates to vesting 66% of the financial component of the plan. According to the annual report (see page 46 for a detailed explanation), the company made this decision because of the 1) the board strongly supported the $28 m Dealer Support Package which was designed to ensure the viability of its customer base and which clearly had a direct negative impact on the FY20 results. If the Support Package had not been paid both financial components of the FY18-20 plan would have vested. In other words, by instituting the Dealer Support Package, which was the right thing to do from the company's perspective, the CEO negatively affected his own remuneration package; 2) the company has produced strong returns over the last 12 months and three years based on a total shareholder returns; 3) Dividends remained in place, and 4) management rapidly implemented cost management initiatives including a 20% reduction in salary for KMP for the period April to June.

It should be noted that the CEO's fixed remuneration for FY2021 has been increased 5.6% to $1.5m, the STI has increased from 87% to 110.4% of fixed remuneration and the LTI has been reduced from 100% to 94.7% of fixed remuneration. We queried the chairman about these changes in these difficult economic times and he advised that the CEO's salary was benchmarked on a like for like basis against other ASX100 companies and the CEO's pay was at the lower end of its peers and some elements were in the 25th percentile. The industry standard for the STI is 100% to 150% so Carsales is at the bottom end of the range. Furthermore, the CEO was hired internally and as a result his pay is not as high as if he had been hired through an international search. The LTI has been reduced to bring it more into alignment with like for like companies. Usually the LTI is 90% of base remuneration. The company's policy is that they must offer competitive salary packages especially as there are many tech companies in the market always looking for good talent. The board is very happy with the CEO's performance and they want him to stay with the company.

CEO rem. framework	Target* $	% of Total	Max. Opportunity $	% of Total
Fixed Remuneration	1.420	63%	1.420	35%
STI - Cash	0.232	10%	0.926	23%
STI - Equity	0.155	7%	0.308	8%
LTI-rights	0.249	11%	0.994	24%
LTI - Options	0.213	9%	0.426	10%
Total	2.269	100.0%	4.076	100%

The amounts in the table above are the statutory 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.

Item 3a	Re-election of Patrick O'Sullivan as a Director
ASA Vote	**For**

Summary of ASA Position

Patrick O'Sullivan has been the independent chair of the board for only one year although he joined the board 13 years ago. Under the Australian Shareholders Association (ASA) guidelines directors are considered non- independent if an executive has been on the board for longer than 12 years. There is an exception to this rule if there is an independent chair and a majority of independent directors. Carsales board has five independent directors including Patrick O'Sullivan out of a total of seven directors.

The ASA believes we should support the re-election of Patrick because of his very strong business experience (see the annual report for a list of previous chair roles) and his long and deep knowledge of the company and this is reflected in the strong earnings growth and share price performance over the last year, three years and five years. Although this performance is due to the board in total but there is no doubt that Patrick (and the board) has provided strong leadership and capable direction. We see no reason why Patrick should not be supported for a longer period as the Chair especially as the board appears to be working well together. We note that in addition to the chairmanship of Carsales, he has recently been appointed to the board of Afterpay as an independent director. These two positions are his only ASX publicly listed roles. He is also chair of the Afterpay Audit and Risk Committee and a member of the Remuneration and Nomination Committee.

Item 3b	Re-election of Walter Pisciotta as a Director
ASA Vote	For

Summary of ASA Position

At first glance the ASA would normally recommend that we vote against the re-election of Walter Pisciotta largely because he has been on the board for such a long time – 24 years. He joined the board in 1996, was co-founder of the company and was chair of Carsales since its inception until August 2015. However, we will vote for him as we have been advised by the chairman that Walter is a valuable member of the board, has a long corporate history and is a strong contributor to board discussions. The chairman said that when they are building businesses overseas, Walter knows what model will work in various markets due to his experience with the Australian operations. Moreover, executives seek out his experience which he freely gives and he has invaluable contacts – for example, Walter is responsible for identifying Edwina Gilbert as a potential director and bringing her on board. As a result of these positive comments; the fact that the board has five independent directors and that Walter is a major shareholder with 8.5 million shares in the company, the ASA recommends the re-election of Walter Pisciotta.

Item 4a	FY2021-23 grant of performance rights to Cameron McIntyre (CEO and MD)
ASA Vote	For

Summary of ASA Position

Approval is sought to give the CEO and Managing Director Cameron McIntyre a grant of up to 80,499 performance rights over shares in the company as part of his long-term incentive package for the 2021 financial year. The number of performance rights to be granted is calculated by dividing the CEO's maximum FY21-23 LTI opportunity (94.7% of FY2021 fixed remuneration) by the weighted average price of the company's shares for the 20 trading days prior to 30 June 2020 which results in a price of $17.64.

The vesting of the performance rights is subject to meeting various financial and strategic measures at the end of three years. The financial measures comprise an adjusted EPS performance measure (which reflects the company's financial performance) and a relative total shareholder return measure which reflects the shareholders' experience. The strategic measures comprise domestic business milestones, international business performance metrics and trust and brand goals. 35% of the performance rights are subject to the adjusted EPS performance measure, 35% are subject to the relative TSR measure and 30% is for strategic measures. For a detailed explanation of these measures see the Notice of Meeting (NOM).

The ASA is supportive of granting these performance rights to the CEO for the following reasons. We are pleased that the company has decided to simplify the plan by dropping the use of options (which we believe are opaque and complex to understand for most shareholders) and limited the plan to one equity vehicle. In addition, we are pleased the board has replaced the look-through revenue performance measure with a relative total shareholder return measure. The ASA has been advising a total shareholder return measure for some time now and we are pleased that the company has heeded our advice. As mentioned above, for the first time the board has set out a clear table in the notice of meeting that shows what proportion of the performance rights will vest based on the company's adjusted earnings per share (EPS) performance, so for example, if the EPS growth is less than 3%, zero performance rights will vest, and as EPS growth increases, the percentage of performance rights vesting increases proportionally. 10% EPS growth will result in the maximum 100% vesting of the performance rights.

The relative total shareholder return (rTSR) measure compares the company's TSR performance against the TSR of a select peer group of 32 domestic and international companies. The peer group comprises ASX listed companies in the media, retailing and information technology sectors as well as three international companies that are similar to Carsales. The full vesting schedule is shown in the NOM and it shows zero performance rights will be granted if the company's TSR ranking is less than the 50th percentile and this rises to 100% vesting at the 75th percentile.

Item 4b	**FY2020-22 grant of options and performance rights to Cameron McIntyre (CEO and MD)**
ASA Vote	**For**

Summary of ASA Position

As mentioned above the CEO's FY2020-22 long term incentive (LTI) grant was not approved by the shareholders at the 2019 AGM and this resolution seeks approval for the granting of 73,412 Performance rights and 148,871 options to Cameron McIntyre in respect of the FY2020-22 remuneration package. After receiving a "First Strike," the board received feedback from the ASA and other proxy advisers and as discussed above, the weighting of financial performance measures increased from 60% to 70% and strategic measures account for the balance. A minimum gate was re-introduced and a non-linear vesting schedule was introduced. These changes to the plan are all positive and the ASA supports the re-structure of last year's LTI grant for the CEO.

The key terms of the performance rights and the options are as follows: an issue price of $13.54 per performance right and an exercise price per option of $13.54; three year performance period; the vesting of the performance rights is subject to a look through revenue performance measure and an adjusted EPS performance measure and the options are subject to meeting various international and domestic business milestones and trust and brand metrics. The NOM shows what proportion of the performance rights vest based on the growth in look through revenues and adjusted EPS measures. For example, less than 3% growth in revenue or EPS results in zero vesting (see NOM for the full table). The vesting of the options (30% of total LTI award) is shown in a table in the NOM and the ASA is supportive of these measures. The company's objectives are now clearly linked to the long-term remuneration of the CEO over a three year period.

Item 5	Conditional spill resolution
ASA Vote	**Against**

Summary of ASA Position

The ASA recommends voting against this resolution because the board, after last year's First Strike" has made some good changes to the remuneration report. The company's objectives are now more closely aligned with shareholders' interests. Overall management and governance of the company is excellent. The stock price of the company has been a strong performer over the last few years and shareholders have benefited accordingly. The ASA will therefore vote against this resolution.